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# THE 1986 GUIDE TO FEDERAL POLICY AND THE REGION

STATE OF THE REGION'S ECONOMY
IMPACT OF GRAMM-RUDMAN-HOLLINGS
TAX OVERHAUL PROPOSALS
STATE BY STATE ANALYSIS OF THE FISCAL 1987 BUDGET

NORTHEAST-MIDWEST CONGRESSIONAL COALITION
NORTHEAST-MIDWEST SENATE COALITION
NORTHEAST-MIDWEST INSTITUTE

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# THE 1986 GUIDE TO FEDERAL POLICY AND THE REGION

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**NORTHEAST-MIDWEST CONGRESSIONAL COALITION**
**NORTHEAST-MIDWEST SENATE COALITION**
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## NORTHEAST-MIDWEST CONGRESSIONAL COALITION
## NORTHEAST-MIDWEST SENATE COALITION
## NORTHEAST-MIDWEST INSTITUTE

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In late 1976, members of Congress from the region founded the Northeast-Midwest Congressional Coalition in recognition of the common problems facing their states and the fact that federal policies often create major obstacles to regional economic growth. The bipartisan group now includes nearly 200 members of the House of Representatives. The Northeast-Midwest Senate Coalition, which was formed in 1978, has 38 members. Together the Coalitions seek to inform their members about the regional implications of national policies and proposals, and to influence those issues of greatest importance to Northeastern and Midwestern states.

The Coalitions propose legislative solutions to the economic problems of the New England, Mid-Atlantic, and Midwest states, and work to assure that federal policies are equitable in their treatment of different areas of the country. Task forces help develop policy initiatives and positions on subjects ranging from the federal budget and economic development to defense, natural resources, energy, and transportation.

The Northeast-Midwest Institute was formed in 1977 at the request of members of the House and Senate who perceived the need for information and analysis of public policies to identify and further the interests of the region. The Institute seeks to encourage policies that will ease the pressures on and support the continued revitalization of the region's economy. It continually searches for new ideas and legislative options that can help older Northern states overcome their handicaps -- such as high energy costs and a deteriorating infrastructure -- and prudently develop their many assets, including a highly skilled work force, top-quality educational institutions, and abundant natural resources.

Although members of Congress remain key clients of the Institute, the organization has developed close working relationships with governors, mayors, and other state and local officials as well. The Institute's work is used widely and relied upon by corporate and labor leaders, academics, public interest groups, associations, and journalists throughout the nation.

The states in the region served by the three organizations are Connecticut, Delaware, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, and Wisconsin.

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## PREFACE

Our three regional organizations are pleased to provide *The 1986 Guide to Federal Policy and the Region*. We believe that over the next 12 months this guide will be an important resource for those who monitor and seek to shape federal policy and its impact on the Northeast and Midwest.

The book reviews the president's budget proposal and its plans for programs that have played an important role in the region's economic growth. The many programs covered fall into the general categories of community and economic development, human resources, natural and physical resources, energy, defense, and economic competitiveness.

In addition, the book provides a new overview of the state of the region's economy. Though the Northeast and Midwest continue to undergo a long-term economic adjustment, we are pleased to report considerable new job creation and renewed optimism about the region's economic prospects.

The goal of our organizations continues to be the forging of partnerships at the federal, state, and local levels to promote the region's economic health. The Gramm-Rudman-Hollings law and tax reform proposals are changing the federal landscape in ways that will affect that regional effort significantly. The analyses presented in *The 1986 Guide to Federal Policy and the Region* are designed to help the region's leaders respond to these changes and choose among policy alternatives.

We welcome the opportunity to work further with all friends of the region.

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# I. SUMMARY

The president's fiscal 1987 budget request marks the beginning of an untried process requiring numerous major decisions by Congress on both taxing and spending. Its determination to reduce the federal deficit will confront Congress with dramatic choices about the future direction of federal activity and the federal role in the domestic economy.

The outcome of the fiscal 1987 budget process will have a significant impact on the economy of the Northeast and Midwest. Through this process, Congress will determine the fate of a variety of programs on which the region has relied to stimulate economic growth, create jobs, and meet the needs of large numbers of citizens, particularly the poor, the elderly, and the young.

As this process begins, much of the Northeast-Midwest economy is in its best condition of the 1980s. Continued economic expansion in 1985 brought significant benefits to the region as well as to the rest of the nation. The boom in consumer borrowing and spending fueled by lower rates of inflation and further reductions in interest rates resulted in lower unemployment and continued capital investment by business.

At the same time, however, other economic factors have fostered a sense of uncertainty about the future. Because of record federal deficits, the government has been competing against other borrowers in the financial markets, keeping interest rates higher than they otherwise might have been. The gap between U.S. savings rates and the demands of government and business borrowers has been filled by foreign investors, keeping the exchange value of the dollar high.

The high value of the dollar contributed to the rapid growth of the nation's trade deficit, which reached an all-time high of almost $150 billion in 1985. The flood of imports and the loss of export markets cost hundreds of thousands of Americans their jobs, particularly in manufacturing industries concentrated in the region. It also exacerbated the worst farm crisis since the 1930s.

The loss of manufacturing employment was most costly in the Midwest, where five states -- Illinois, Iowa, Minnesota, Ohio, and Wisconsin -- went against the national trend and ended 1985 with higher unemployment than in 1984. Altogether, the region lost almost 218,000 manufacturing jobs last year -- almost 70 percent of the total national loss of nearly 313,000. Service employment in the Northeast and Midwest grew by about 430,000 in 1985. Total non-agricultural employment in the region rose by 916,400; the figure for the nation was over 2.1 million.

The following analysis, prepared jointly by the staffs of the Northeast-Midwest Institute, the Northeast-Midwest Congressional Coalition, and the Northeast-Midwest Senate Coalition, examines the president's recommendations in 18 major issue areas and their potential impact on the region.

The economic and political dangers of continued huge federal deficits drove Congress in 1985 to pass the Gramm-Rudman-Hollings balanced budget law. That act sets annual ceilings on the deficit, beginning at $171.9 billion in fiscal 1986 and declining by $36 billion each year until the budget is balanced in fiscal 1991. Because the 1986 fiscal year already was under way when the legislation was enacted, the bill limited the automatic spending cuts that must be ordered under its "sequestration" process to $11.7 billion. Following procedures laid out in the bill, on February 1 the president issued a sequestration order to cut the fiscal 1986 budget by the maximum amount allowed. Unless Congress acts to pass an alternative plan, that order will go into effect on March 1.

A three-judge federal panel has ruled a key part of the Gramm-Rudman-Hollings sequestration procedure to be unconstitutional. That decision is being appealed to the Supreme Court. In the meantime, the fiscal 1986 sequestration order will take effect as scheduled. Should Gramm-Rudman-Hollings survive this legal challenge, and barring any changes in the process by Congress, the mandated deficit level will be achieved by one or a combination of means: decisions by Congress to limit federal spending to the level required; sequestration of funds from domestic and military budgets not protected by the law; or tax increases to raise additional revenues.

In keeping with the president's frequently expressed preferences, his fiscal 1987 budget request projects no increase in taxes and would continue to expand the portion of federal spending going to defense. The request would achieve the almost $38 billion required deficit reduction primarily by cutting domestic programs in the areas of community and economic development, human resources, education and training, energy and natural resources, and physical infrastructure. Military spending would increase by 8 percent after inflation.

Many of the programs that would be reduced or eliminated under the president's request have been targeted previously for severe cuts by the administration. In prior years, however, these programs, which have been heavily utilized throughout the Northeast and Midwest, were preserved through bipartisan efforts by elected officials.

Following are highlights of the budget proposal:

- **COMMUNITY DEVELOPMENT** -- The administration continues to press for vastly reduced federal resources and responsibilities in community and regional development. The president is seeking budget authority of $3.8 billion in fiscal 1987 for all community and regional development activities, of which CDBG and UDAG are the largest; this would represent a cut of 54 percent from the actual 1985 level of $8.2 billion, and 44 percent from the 1986 budget authority of $6.8 billion.

  Community Development Block Grants (CDBG). The budget request asks for $2.125 billion in new CDBG budget authority for fiscal 1987; this amount would be augmented by deferring to 1987 $500 million in authority from the $3.12 billion authorized for fiscal 1986. In addition, sequestration could reduce this year's authority by $134 million. As a result, fiscal 1986 CDBG resources would shrink to $2.49 billion.

The president also requests two legislative changes in the distribution of CDBG funds. The first would channel more block grant funds to small cities via the state-administered CDBG program by changing the allocation between large cities-urban counties and states/small cities from 70/30 percent to 65/35 percent. The requested budget would earmark $1.71 billion for large cities and $919 million for small communities in 1987. The actual amounts in 1985 were $2.33 billion and $967 million; the estimated levels for fiscal 1986 based on current law before the proposed deferral are $2.01 billion and $897 million. The second change, which is offered without a specific legislative proposal, would reduce the assistance provided to less needy CDBG recipients by establishing new threshold criteria for entitlement communities. Without such a change, in 1987 a record 827 communities would share the entitlement portion, an increase of 36 percent since the program's inception.

In fiscal 1985, 51 percent of CDBG funds were allocated to cities and states in the Northeast-Midwest region on the basis of a dual formula that is highly responsive to the needs of older urban areas.

Section 108 Loan Guarantees. The administration again is proposing to terminate the Section 108 program, which entitlement cities use to leverage CDBG funds for major downtown and inner-city redevelopment efforts. Cities in the region have used 62 percent of the $687 million in guarantees approved since the inception of the program.

Congress enacted a $222.5 million guarantee limit as part of the fiscal 1986 HUD appropriation; sequestration could reduce this limit to $212.9 million. The budget proposes language to reduce the 1986 guarantee ceiling further to $50 million.

Urban Development Action Grants (UDAG). The administration proposes to terminate the UDAG program in fiscal 1987. In addition, the president is seeking a rescission of all UDAG monies remaining after the January large cities round was funded; this would include $206 million in fiscal 1986 funds and approximately $14 million in unused balances from prior year appropriations. In anticipation of this rescission, HUD has suspended the application review process and returned all new applications received since January 1. Approximately $109 million was awarded for projects during the two funding cycles HUD has conducted since the beginning of fiscal 1986.

If implemented, the UDAG provisions would have a significant impact on economic revitalization efforts in the nation's most distressed large and small cities. Those in the Northeast and Midwest historically have received two-thirds of all UDAG awards, and elimination of the program would be keenly felt in the region. Since 1978, the program has generated $15.5 billion in private investment and is credited with creating over 300,000 jobs in the Northeast and Midwest. Over $500 million in UDAG assistance has been provided to the region's small cities.

- **ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)** -- The president again proposes to close out EDA. The administration maintains that its programs are obsolete and "no longer target assistance to those in need." No new EDA program spending is requested for fiscal 1987, and all 1986 appropriations would be rescinded.

Because of strong congressional support for EDA's assistance to local areas adjusting to economic change, the agency has continued to operate with a small program budget. Congress provided $183.5 million in budget authority for fiscal 1986; sequestration could reduce this to $175.6 million. The Northeast-Midwest region received $79 million in EDA funds in fiscal 1985, while $128 million was awarded for projects in the South and West. Early this year, the House passed legislation (H.R. 10) that would restructure EDA, require greater local planning and participation, and more carefully target program resources to areas of greatest need.

o **ASSISTED HOUSING** -- No new fiscal 1987 budget authority is requested for assisted housing programs. The administration proposes that all HUD housing activities for next year be funded out of a proposed $2.3 billion deferral of 1986 authority. Moreover, the administration proposes to further pare new fiscal 1986 budget authority to $2.8 billion through a rescission of $4.4 billion and potential sequestration cuts of $428.5 million. This dramatic 74 percent cut from the $10.8 billion level of 1985 will have a significant impact on the Northeast-Midwest region. The request also assumes "deobligation" of $537.5 million in 1986 and $264.4 million in 1987 for units currently in the pipeline. Rural housing programs of the Farmers Home Administration would be eliminated.

The request proposes that a total of 67,064 additional units be assisted in fiscal 1986; these include 350 public housing units and 66,714 new Section 8 units. The pre-rescission authority level, even with sequestration, would assist 6,274 public housing units and 108,206 Section 8 units. Thus, the administration is proposing a 38 percent reduction in Section 8 assisted housing from appropriated fiscal 1986 levels. The administration seeks 62,500 new units in fiscal 1987. With the exception of a few units approved in 1986 prior to the release of the budget, assistance for all future units would come under the housing voucher program. In 1987, no additional units are proposed for the Section 202 program, which provided financial assistance for housing for the elderly and handicapped, or for public or Indian housing.

Two new housing programs authorized in 1983 are proposed for termination in fiscal 1987. The rental rehabilitation program provides grants to repair existing housing stock, and has been utilized widely to upgrade the region's older housing. About $149 million, or 52 percent of total program funds allocated during fiscal 1984 and 1985, have gone to cities and states within the Northeast and Midwest. The entire $75 million authorized for fiscal 1986 is proposed for rescission.

The rental housing development program (HoDAG) also is slated for termination in the budget proposal. HoDAG is designed to leverage private investment and spur new production of rental housing in areas experiencing severe shortages. The program's $75 million in 1986 authority would be rescinded. In 1984 and 1985, the region received 62 percent of the competitive HoDAG awards.

Public housing modernization funds would be cut massively. The budget would maintain the level of rehabilitation activity at $225 million in fiscal 1987, the same as in fiscal 1986; in 1985, it was pegged at $823 million. Adequate modernization funding is especially critical to the region's housing authorities, which contain much of the oldest and least energy-efficient stock. Overall, the 621,000 public housing units in the Northeast and Midwest -- 53 percent of the nation's stock -- received 63 percent of the program funding in 1984, the most recent year for which complete information is available.

Nearly $1.2 billion in budget authority is proposed for low-income housing operating subsidies in fiscal 1987. Housing authorities in the Northeast and Midwest received 67 percent of these funds in 1985.

- **GENERAL REVENUE SHARING (GRS)** -- The administration's budget does not propose to reauthorize the GRS program once it expires on September 30. It also seeks to eliminate the final quarterly payment of $760 million, which is due to localities in October of this year. That payment already reflects a 33 percent reduction because the fiscal 1986 appropriations bill cut revenue sharing by 8.4 percent ($381 million) and specified that the entire reduction be taken from the fourth quarterly payment. In addition, the 4.3 percent cut assumed under Gramm-Rudman-Hollings means that an additional $180 million would have to be pared from GRS this year. The timing of this cut and which quarters will be affected have not yet been decided.

  In fiscal 1985, local governments in the Northeast-Midwest region received $2.1 billion in revenue sharing. GRS provides the most flexible federal assistance available to local communities, allowing them to earmark the funds according to their individual needs. For many small and medium-sized communities, these funds are the principal source of federal dollars. Under the existing program, distressed cities generally receive a greater allotment per capita. Although both the inter- and intrastate distribution formulas have been subject to criticism, the method of distribution follows the theory that the federal government -- especially in times of tight budgets -- should target GRS to those communities that have the least ability to raise revenues but make the greatest effort by taxing their own citizens.

- **SMALL BUSINESS ADMINISTRATION** -- The administration again has proposed to eliminate the Small Business Administration (SBA) and transfer several of its non-lending functions to the Departments of the Treasury and Commerce.

  The fiscal 1987 request proposes no new direct loan obligations or guaranteed loan commitments, except for direct loans to purchase defaulted guaranteed loans. The major programs slated for elimination are the Business Loan and Investment Fund, which includes the Section 7(a) General Business Loans as well as handicapped, veterans, and economic opportunity loans, currently funded at $162 million; the Section 503 Development Companies program, now authorized at $275 million; and the Small Business Investment Companies program, currently authorized at $239 million. In addition, in 1986 SBA can guarantee up to $3.25 billion in loan commitments.

  New and small businesses play a vital role in the Northeast-Midwest region's economy, facilitating innovation and significant job creation. The administration seeks to eliminate financing for small businesses that have been unsuccessful at obtaining credit through independent sources. In 1985, the region received $1.215 billion in small business loans and guarantees. These programs now are targeted for elimination.

- **ENERGY CONSERVATION** -- The president's budget would virtually eliminate federal energy conservation activities. Budget authority would be cut from $428 million in fiscal 1986 assuming sequestration to $40 million in 1987, a reduction of 91 percent. Grants to state and local governments for energy conservation assistance would be eliminated; energy conservation research and development would be cut by 80 percent.

Energy conservation grants provide funds to state and local governments to undertake energy conservation measures. Budget authority in fiscal 1986 totaled $256.6 million (assuming sequestration) for four separate grant programs and program management; the request for fiscal 1987 would provide $5 million for program management but no money for grants. The four programs that would be eliminated are low-income weatherization assistance, funded in 1986 at $177.9 million; institutional conservation -- also known as the schools and hospitals program -- funded in 1986 at $43.9 million; state energy conservation planning, currently funded at $17.5 million; and the energy extension service, now funded at $7.3 million. Overall program management received $9.5 million in 1986.

The budget request justifies elimination of these programs by anticipating that the states will receive consumer restitution funds from oil overcharge cases that can be used in these programs. The president's budget requests a cut of 80 percent in energy conservation research and development -- from $170.9 million in fiscal 1986 to $34.4 million in 1987. No funding is requested for the Solar Energy and Energy Conservation Bank.

The region makes extensive use of energy conservation grants and research and development. In fiscal 1986, 63 percent of the weatherization assistance grants went to states in the Northeast and Midwest, weatherizing over 110,000 low-income homes. Furthermore, the region has the highest energy prices in the nation and produces less than 30 percent of the energy it consumes; programs that promote energy conservation investments help stem the outflow of capital spent on energy purchases. Conservation R & D has the added benefit of improving the competitiveness and trade posture of the region's industries, many of which rely on older, energy-inefficient technologies.

- **ENERGY SUPPLY** -- The administration has requested 13.8 percent less funding for energy supply and general science research and development in fiscal 1987 than was appropriated in 1986 assuming sequestration. It proposes spending $894.6 million for domestic nuclear research and development, a reduction of 7.7 percent from the fiscal 1986 appropriation (assuming sequestration). The fossil energy research and development request of $82.8 million would represent a 73.5 percent reduction from fiscal 1986; the solar and other renewable research budget request would be 60.3 percent lower. The fossil fuel program, which provides for long-term research and development, would suffer the largest cut, primarily because the coal research and development budget would be reduced by $163.8 million.

Funding for the newly established clean coal technology program would be made available in accordance with the provisions of the Continuing Resolution: $99.4 million in fiscal 1986, $149.1 million in 1987, and $149.1 million in 1988. This funding comes from a reserve of $750 million for clean coal technology established in 1984. The reserve finances the federal share of construction and operation of facilities that demonstrate clean coal technologies for future commercial applications.

Tax expenditures for energy supply are projected to show a small increase of 0.4 percent in fiscal 1987, to a total of $2.735 billion. Incentives for oil and gas exploration, development, and production would increase by 11 percent over fiscal 1986, while incentives for solar and alternative energy would drop by 60 percent and conservation incentives would decline from $75 million in fiscal 1986 to virtually zero in 1987. Total conservation, solar, and alternative energy incentives will drop from approximately 15 percent of energy tax incentives in 1986 to 6 percent in 1987. The energy conservation and renewable energy investment tax credits expired on December 31, 1985.

Clean coal technologies, alternative energy resources, and energy efficiency investments are particularly important to states in the Northeast-Midwest region, all of which consume more energy than they produce. Without research and development programs in both basic and applied energy, new technologies cannot be brought to full commercialization.

The budget request assumes passage of legislation directing $1.0 billion into the federal Treasury from oil overcharge settlements. It also assumes the sale of the naval petroleum reserves for $3.6 billion. It projects the sale of the Bonneville and Southwestern Power Administrations in 1988 and sale of the other three power marketing administrations in subsequent years, producing net savings of $0.2 billion in 1987, $1.6 billion in 1988, and $12.7 billion for 1987-1991. None of these power marketing administrations operates in the Northeast or Midwest. The request also proposes a moratorium on further additions to the Strategic Petroleum Reserve.

- **LOW-INCOME HOME ENERGY ASSISTANCE (LIHEAP)** -- The administration is requesting $2.1 billion for LIHEAP, the same amount appropriated in fiscal 1986 before the scheduled 4.3 percent sequestration. LIHEAP provides block grants to states, which in turn make direct cash payments to eligible low-income households or their fuel vendors. A state may choose to set aside up to 15 percent of its LIHEAP grant to weatherize the homes of eligible families. The Northeast-Midwest region, with its cold weather, older housing, and large low-income population, will receive over 62 percent of LIHEAP funds in fiscal 1986.

- **DEFENSE** -- The president's request calls for $311.6 billion in budget authority and $274.3 billion in outlays for the Department of Defense (DoD) in fiscal 1987. This proposed increase of $33.2 billion, or 11.9 percent, in authority and $15.8 billion, or 6.1 percent, in outlays over fiscal 1986 (after sequestration) reflects the administration's continuing commitment to real increases in national defense spending. When adjusted for inflation, DoD budget authority would rise by 7.5 percent from the 1986 post-sequestration level.

Increases in later years are projected at 6.7 percent in fiscal 1988 and 6.4 percent in fiscal 1989 for DoD budget authority, while outlays would rise by 6.0 percent and 7.8 percent. Under the president's request, total budget authority for national defense -- including some energy and national security programs -- in fiscal 1987 would be $320.3 billion, 29.1 percent of the federal budget.

The sequestration scheduled to take effect on March 1, 1986, under Gramm-Rudman-Hollings will cut current DoD budget authority and obligated balances by $13.3 billion, and outlays by $5.1 billion. This represents a 4.9 percent cut in all non-exempt defense programs. Under special authority granted for fiscal 1986 only, the president exempted almost all military personnel accounts from sequestration. Had he not exempted these accounts, the across-the-board cut in non-exempt DoD programs would have been 3.1 percent. The president also used a one-time grant of special authority to fully exempt the

Strategic Defense Initiative program and 19 other specific procurement and research programs from any automatic cuts.

The largest percentage growth in the defense budget in fiscal 1987 will be in military construction, which will increase by 28 percent. In fiscal 1985 only 17 percent of these funds went to Northeastern and Midwestern states. Budget authority for research, development, test, and evaluation (including the Strategic Defense Initiative) would increase by $8.2 billion, or 24 percent. The region received 41 percent of these funds in fiscal 1984.

Budget authority for procurement would increase 3.4 percent, less than the rate of inflation. In fiscal 1985, the Northeast-Midwest region received 39 percent of military prime contracts. In a change from last year, budget authority for operations and maintenance and military personnel would increase significantly. The region's share of the military payroll in fiscal 1984 was 21 percent.

- **WATER RESOURCES** -- The administration's fiscal 1987 request would increase budget authority for the Army Corps of Engineers from $2.8 billion after sequestration to $3.3 billion. Of this total, $456 million would be financed through increases in local cost sharing and user fees, up from $96 million in the current fiscal year. The Northeast-Midwest region received 21 percent of the Corps' 1985 expenditures. The request assumes that $227 million in non-federal financing would be realized through existing local cost sharing and user fees; an additional $203 million in harbor maintenance fees would be collected through enactment of the Omnibus Water Re-sources bill (S. 1567) pending in the Senate; and $26 million would be collected through enactment of the provision in S. 1567 that would increase the barge fuel tax that pays for a fraction of the inland waterway navigation system. No new construction would begin on navigation projects until the user fees proposed in the budget were accepted by Congress.

Budget authority for the Bureau of Reclamation, which is limited by law to operation in 17 Western states, would increase from $765 million to $906 million. The agency's construction budget authority is slated to increase from $499 million to $577 million to allow for continued work on 61 projects, to begin pre-construction activities at three new sites, and to finance six new dam safety projects. Total outlays for BuRec actually would decline slightly between fiscal 1986 and 1987, suggesting that the increased budget authority is intended to provide for out-year spending on long-range projects. The administration has not proposed uniform cost-sharing legislation for BuRec projects.

As in last year's budget, the administration proposes to phase out both the Soil Conservation Service's small watershed and flood prevention programs and the Farmers Home Administration's wastewater treatment grants program for small communities. Budget authority would drop from a combined total of $278 million after sequestration in fiscal 1986 to $74 million in fiscal 1987. Outlays would decline more slowly to reflect completion of work on existing projects. The Northeast-Midwest region receives approximately 30 percent of SCS and FmHA water program expenditures.

The budget also repeats last year's proposal to phase out the EPA municipal wastewater grants program. New budget authority would drop from $2.375 billion after sequestration to $1.8 billion in fiscal 1987, and would be eliminated by 1990. Outlays would decline more slowly, dropping from $2.8 billion in fiscal 1987 to $1.8 billion in 1990 to reflect obligations to complete previously authorized projects. The authorization for the wastewater treatment grants program expired on October 1, 1985. Although Congress appropriated $2.4 billion for the program in fiscal 1986, $1.8 billion may not be released until the Clean Water Act is reauthorized. Both the House and Senate Clean Water Act reauthorization bills, which are awaiting conference, provide for a phase-out of the construction grants program, but at a much slower rate than the administration's proposal. The Northeast-Midwest region receives approximately 54 percent of EPA's wastewater grants allocation.

- **NATURAL RESOURCES AND ENVIRONMENT** -- Budget authority for Environmental Protection Agency (EPA) programs, excluding wastewater treatment, would rise from $2.25 billion in 1986 after sequestration to $2.35 billion in fiscal 1987. Most of the increase would be provided to the Superfund hazardous waste cleanup program. The administration assumes post-sequestration budget authority for Superfund of $860 million in fiscal 1986, and requests $1.05 billion for fiscal 1987. However, the program expired at the end of 1985, and a conference has not yet been scheduled to resolve differences between the House and Senate reauthorization bills. Congress authorized expenditures of only $60 million for fiscal 1986 until reauthorization is completed. In the meantime, cleanup has been halted at over 100 sites, and EPA plans to begin dismantling the program in April unless Superfund is reauthorized or Congress provides the interim funding requested by the agency. The Northeast-Midwest region has 60 percent of the nation's Superfund sites.

  Budget authority for EPA's research and abatement, control, and compliance programs would be cut from $766 million to $683 million, although outlays would increase slightly due to a carryover of fiscal 1985 funds. Air and water quality research and enforcement programs would be reduced by $16 million and $34 million. The administration proposes a slight reduction in EPA's various state grant programs, and would combine them into one pollution control block grant. Budget authority for the multi-agency federal acid rain research effort would remain constant at $85 million.

  Budget authority for the U.S. Forest Service in fiscal 1987 would be $1.74 billion, down from the post-sequestration 1986 level of $2.15 billion. The largest drop in absolute dollars would be gained from the National Forest System, whose funding would be reduced from $1.17 billion to $894 million. The Research program would be trimmed slightly, from $120 million to $111 million, while the State and Private Forestry program, important to resource management in the region, would be cut by 55 percent, to $25 million. State foresters and other forestry interests have requested that the State and Private Forestry program promote marketing initiatives that would help reduce the $2 billion forest product trade gap. That request could not be met under the proposed budget.

- **TRANSPORTATION** -- Budget authority for mass transit formula grants for operating assistance and capital projects would be eliminated in fiscal 1987. This would end all federal support for mass transit from general revenues. These programs currently are budgeted at $2.058 billion in fiscal 1986 after sequestration. About 60 percent of these funds are allocated to states and localities in the Northeast and Midwest.

The discretionary mass transit capital grant program funded by the dedicated one-cent tax on gasoline would be reduced from $1.1 billion in fiscal 1986 budget authority to $755 million. In fiscal 1987, the program would be subsumed under a new $3.3 billion ground transportation block grant program for mass transit and selected highway projects. Small urban areas would be permitted to use block grant funds for operating assistance, while large urban areas would be limited to capital projects. The block grant would incorporate $1.1 billion of revenues from the "transit penny" as well as $2.2 billion from the Highway Trust fund, and would be distributed under existing program formulas.

The Federal Aid Highway Trust Fund would receive $12.77 billion in budget authority in 1987, compared to a 1986 level of $14.694 billion after sequestration. The obligation ceiling for the Trust Fund is $12.42 billion in 1987 and $12.202 billion in 1986 after sequestration. The budget proposes to combine the Interstate construction, Interstate 4R, and Primary System programs into a new Interstate/Primary grant program with budget authority of $7.793 billion in fiscal 1987. This would represent a decrease of over $300 million from the $8.1 billion in total budget authority for the three programs in 1986. The secondary and urban programs, funded at $500 million and $675 million in fiscal 1986, would be incorporated into the new ground transportation block grant program. Non-primary road bridges also would be funded under the block grant. The bridge program would be reduced from $1.75 billion in fiscal 1986 to $1.25 billion in 1987.

Funding for the Northeast Corridor Improvement Project in fiscal 1986 would be rescinded, and no funds are requested for fiscal 1987. Amtrak also would receive no funds in 1987. Most of the railroad's key routes are based in the region, including the heavily utilized Boston-New York-Washington corridor service. Sequestration reduced Amtrak's fiscal 1986 budget authority of $588 million by $25.263 million. The president's budget proposes the sale of Conrail to the Norfolk Southern Corporation for $1.2 billion. Conrail operates in 12 states in the Northeast-Midwest region.

- **AGRICULTURE** -- The largest portion of federal expenditures on agriculture go for price and income support activities administered by the Commodity Credit Corporation (CCC). The budget proposal projects CCC payments in fiscal 1986 at a record-high level of $20.3 billion. In fiscal 1987, however, outlays would fall to $16.2 billion. The sequestration of $823 million in fiscal 1986 budget authority would reduce outlays in both 1986 and 1987. More importantly, the request assumes that the Secretary of Agriculture will reduce outlays through the use of maximum discretion in administering the newly enacted farm program, including significantly lowering crop loan rates. Another reason for the projected decline is that over $2 billion in crop deficiency payments that normally would be made in 1987 were advanced to 1986 instead. The budget also assumes that exports will increase, thereby decreasing demand on the price support programs.

Because the CCC is virtually out of funds, the president's budget requests urgent action by Congress to grant the CCC "permanent indefinite" authority to be reimbursed for net realized losses directly from the Treasury, rather than through the appropriations process. This request was rejected last year. In fiscal 1985, $6.2 billion of CCC outlays went to states in the Northeast and Midwest, primarily through the commodity programs and dairy purchases.

Two important components of USDA's research and education effort at the state and local levels are the Cooperative State Research Service (CSRS) programs and the Extension Service. For CSRS, the president's budget proposes a cut of 11.7 percent in budget authority from $279 million in fiscal 1986 (after sequestration) to $246.4 million in fiscal 1987. CSRS administers federal funds for research at the state agricultural experiment stations and at other eligible educational institutions. In 1985, $98.3 million, or about 35 percent, of available funds were awarded to institutions in the Northeast-Midwest region.

Budget authority for the Extension Service would be $140 million, a 57 percent reduction from the 1986 post-sequestration level of $328 million. This already represents a drop of $14.7 million from the original 1986 appropriation. The Extension Service administers payments to the states to support and disseminate USDA and land-grant college research. This program is designed to help people identify and solve farm, home, and community problems. Outlays for 1987 are estimated at $179 million, down from 1986 estimates of $331 million. The Northeast-Midwest region received $112 million in Extension Service funds in 1985.

The president proposes to eliminate FmHA insured and guaranteed ownership loans and make those funds available for operating loans. Legislation will be offered to make available $1.5 billion for insured operating loans and $2.5 billion for guaranteed operating loans. This would continue the expansion of the guaranteed lending program. Such legislation would transfer the entire amount now available for ownership loans to the farm operating loan program. The 1985 farm bill authorized $3.48 billion for operating loans in 1987 -- $1.305 billion for insured loans and $2.175 billion for loan guarantees. The bill also authorized $520 million for ownership loans in 1987 -- $195 million for insured loans and $325 million for loan guarantees. The president's budget would preserve the $185 million authorized by the bill for fiscal 1987 for an interest rate buy-down program for guaranteed lending. In fiscal 1985, the Northeast-Midwest region received 40 percent of FmHA expenditures for these programs.

The Food Stamp Program provides food assistance to millions of low-income households, almost 8.7 million of which are in the Northeast-Midwest region. The president's budget requests $11.5 billion in fiscal 1987 budget authority and outlays for food stamps. This represents a cut of $244 million in budget authority and $164 million in outlays. To accomplish these cuts, a repeal is proposed for several provisions of the Food Security Act of 1985 that expand program eligibility and are scheduled to take effect on May 1, 1986. Additional savings in fiscal 1987 would be obtained through legislative proposals that would count the stipends and earnings of Job Training Partnership Act participants as income, amend the state administrative formula, change state liability on error rates, and modify the rules regarding treatment of energy assistance in calculations of benefits.

- **EMPLOYMENT AND TRAINING** -- The president proposes to spend $4.25 billion for employment and training in fiscal 1987, a decrease of approximately one-quarter of a billion dollars from the 1986 total. The request would maintain block grant funds to states for job training programs for the economically disadvantaged -- the core Title IIA of the Job Training Partnership Act (JTPA) -- at a budget authority of $1.82 billion, approximately equal to the 1986 amount before the anticipated 4.3 percent sequestration. Title IIA funds are distributed by formula to local areas nationwide; their use is determined jointly by Private Industry Councils and local elected officials.

Major changes are proposed for other parts of JTPA that are heavily used in the Northeast and Midwest. These include the dislocated workers program (Title III) and summer youth jobs program (Title IIB). The president requests a supplemental appropriation for fiscal 1986 of $74 million for the dislocated workers program. This would partially restore severe cuts made during the appropriations process, but would be utilized to provide services to dislocated workers that previously were available under the Trade Adjustment Assistance program, for which no funding is requested. The administration has proposed that the additional fiscal 1986 funds for dislocated workers be distributed at the discretion of the Secretary of Labor, and changes will be requested for fiscal 1987 to allow the Secretary discretion over distribution of all Title III funds, rather than distributing the bulk of the funds by formula. In fiscal 1985, states in the Northeast-Midwest region received $79 million, or over 47 percent, of the funds distributed by formula.

The president proposes to rescind $208 million in fiscal 1986 from the summer youth jobs program (JTPA Title IIB), to bring funding down to $428 million for the summer of 1987 and subsequent years. In recent years, $825 million has been available for this program. Appropriation language will be proposed to change the allocation of summer funds, maintaining the previous amount for those areas with large concentrations of disadvantaged youth (including several cities of the Northeast and Midwest) and giving the Secretary of Labor discretion to target funds to needy areas. Similar actions occurred for summer 1986 funds. Last summer, states in the Northeast-Midwest region received $371 million, or nearly half the funds available for this program.

The request also proposes a rescission of $196 million in fiscal 1986 for the Job Corps -- the residential youth training program -- to reduce total funds to $416 million. Last year the administration proposed termination of Job Corps, but Congress continued its support for the program and increased its funding slightly.

The president requests $921 million for the Employment Service in 1987, down from $955 million in 1986. Ninety-seven percent of these funds come from the unemployment insurance trust funds generated by taxes on employers in each state. The budget notes that the administration will continue current discussions with states about their assuming more responsibility for decisions on the financing and administration of this program.

Repeating a suggestion made in previous years, the request proposes to eliminate the Work Incentive Program (WIN), rescinding $45.9 million for fiscal 1986.

- **EDUCATION** -- The administration has requested $15.2 billion in new budget authority for education programs, a 14.5 percent cut from the fiscal 1986 post-sequestration level of $17.7 billion. These reductions would be achieved primarily through major changes in student financial assistance programs and the Vocational Education program. In addition, $1.1 billion in education spending for fiscal 1986 would be rescinded.

The Vocational Education program has been targeted for a $210 million rescission in fiscal 1986 and a further cut of $195 million, or 32 percent, in fiscal 1987. These savings would be achieved by eliminating all state grants for general improvement, innovation, and expansion of vocational education programs. Beginning in fiscal 1986, federal funding for vocational education would be limited to programs for the handicapped, the economically disadvantaged, and other special needs students. In fiscal 1986, states in the Northeast and Midwest received $243 million for Vocational Education, 43 percent of the national total.

In general, other elementary and secondary school programs -- such as the Education for Disadvantaged Children program and Chapter II, the State Block Grant program -- would be maintained at or near fiscal 1986 levels prior to sequestration. As in previous years, a major exception would be the Impact Aid program, which the administration proposes to reduce by over $115 million, or 17 percent, from the fiscal 1986 post-sequestration level of $663 million.

Federal support for student financial assistance programs would be reduced substantially. The Guaranteed Student Loan (GSL) program -- the largest individual federal student financial assistance program -- would be reduced by 30 percent, from $3.3 billion in fiscal 1986 to $2.3 billion in fiscal 1987. In fiscal 1986, students in the Northeast and Midwest borrowed over 56 percent of all funds lent under the GSL program. Funding for six other student financial assistance programs, including Pell Grants and National Direct Student Loans, would be reduced by 9.6 percent from fiscal 1986. Major savings in these programs would be achieved by restricting program eligibility and reducing or eliminating the federal interest subsidy.

Several new legislative initiatives are proposed. One would grant parents of children eligible under Chapter I (Education for Disadvantaged Children) the option of receiving a voucher for the amount the child would be allocated under the program. This voucher would be used to pay for tuition or compensatory education at other public or private schools. In addition, as in the past, the president calls for the creation of education savings accounts to encourage lower and middle income parents to save money for their children's education, and implementation of tuition tax credits for parents of private school children.

- **UNEMPLOYMENT INSURANCE** -- The budget request estimates that outlays for unemployment compensation will increase from $16.5 billion in fiscal 1986 to $16.9 billion in fiscal 1987. It projects that an average of 2.3 million workers will receive benefits in 1986 and 100,000 fewer in 1987. The projected increase in outlays, coming at the same time that the number of beneficiaries is projected to decline, is attributed to higher average weekly benefits. No funds are requested for any supplemental unemployment assistance over and above $4 million for the existing Extended Benefits (EB) program. The EB program provides an additional 13 weeks of benefits to persons in states with especially high unemployment. The most recent Federal Supplemental Compensation (FSC) program expired last March. In fiscal 1985, unemployed workers in the Northeast-Midwest region received $7.25 billion in unemployment compensation, 54 percent of the national total.

As with the Employment Service, the budget request notes that discussions will be continued with states about their assuming greater fiscal and operating responsibility for administering the Unemployment Insurance program. Funds for administration as well as benefits are generated through taxes assessed on employers in each state.

- **RESEARCH AND DEVELOPMENT** -- The administration's budget requests $62.5 billion for federal research and development activities and facilities, an increase of $8.7 billion, or 16.2 percent, from the fiscal 1986 level of $53.8 billion after sequestration. More than 97 percent of the 1987 total would go for R & D operations, with only $1.7 billion designated for R & D facilities, a decrease of $78 million.

The bulk of these expenditures is devoted to defense R & D activities (excluding facilities), which would increase to $44.4 billion in fiscal 1987, up $8.7 billion, or 24 percent, from the current level. By comparison, total non-defense R & D activities would be funded at $16.4 billion, an increase of $78 million, or 0.5 percent. These activities help to maintain the nation's scientific and technological position. They are particularly critical to the Northeastern and Midwestern states, whose older manufacturing industries utilize technological innovation to enhance their economic competitiveness.

Large increases in obligations for National Science Foundation basic research and the National Aeronautics and Space Administration would offset decreases in almost all other non-defense departments and agencies. In fiscal 1984, the Northeast and Midwest received 41.2 percent of DoD funds for R & D and 41.2 percent of non-defense R & D expenditures.

The National Science Foundation (NSF), whose principal mission is to support research in all fields of science and engineering, would receive $1.7 billion in budget authority, an increase of $228 million, or 15.6 percent, over the 1986 post-sequestration level of $1.5 billion. The proposed budget would continue the emphasis on basic research, and would increase budget authority significantly for mathematical and physical sciences, engineering, and scientific, technological, and international affairs. A very large increase in budget authority for science and engineering education activities also is requested to maintain current levels of activity. In 1984, the Northeast-Midwest region received 45.8 percent of the R & D funds obligated by NSF.

The Department of Commerce, which has an important role in advancing technological innovation and promoting the competitiveness of U.S. industries, would have a budget authority for science and technology of $1.24 billion in fiscal 1987. This is a decrease of $78.5 million, or 6 percent, from the current post-sequestration level of $1.32 billion.

- **TRADE** -- The president's budget request does not contain a special analysis on trade and trade-related spending. The departments, agencies, and institutions that have trade-related responsibilities are spread across several federal budget functions. Even the cumulative spending of these agencies does not reflect fully all of the administration's trade activities. However, it does clarify some of the president's trade priorities.

Federally funded entities with trade-related responsibilities can be divided into three groups: agencies that promote exports (both directly and indirectly); those that focus on imports; and those that have programs in both areas.

The administration generally would increase funding for organizations that promote exports indirectly, while curtailing spending by programs that promote them directly. Fiscal 1987 budget authority for multilateral development assistance -- including the World Bank group and the regional development banks, which promote exports indirectly -- would be $1.6 billion, up 15 percent from fiscal 1986 levels (assuming sequestration). Among direct export promotion programs, the Export-Import Bank's direct loans would be replaced, the Overseas Private Investment Corporation would be put up for sale, and a new targeted export financing program with budget authority of $300 million would be created. In 1981, the Northeast-Midwest region had 45.8 percent of the nation's total employment but 50.5 percent of the employment related to manufactured exports. More than one of every eight manufacturing jobs (13 percent) in the region was related to exports.

The administration requests $3 billion for the Department of Agriculture's short-term export credit guarantee program, down $1.8 billion from fiscal 1986 (assuming sequestration), and elimination of intermediate-term guarantees. In addition, the administration asks budget authority of $72 million for the Foreign Agricultural Service, down 10 percent from fiscal 1986 (assuming sequestration). The 1985 farm bill passed by Congress and signed by the president includes two new export promotion programs designed to counter foreign subsidies and unfair trade practices and make American agricultural exports more competitive. These programs are not mentioned in the budget request. In fiscal 1984, the Northeast-Midwest region had five of the nation's top ten states for total agricultural exports: Iowa, Illinois, Minnesota, Indiana, and Ohio. The region as a whole accounted for 36 percent of the nation's total agricultural exports.

The administration would reduce funding for the United States Trade Representative (USTR) and increase funding for the International Trade Administration (ITA). The USTR and ITA have responsibilities in all trade areas. Fiscal 1987 budget authority for ITA would be $179 million, up $6 million from this year. The increase would allow additional administration of import restrictions -- for example, voluntary restraint agreements on steel and antidumping and countervailing duty petitions from U.S. industries -- and export controls. Funding for trade development activities would decline dramatically.

Among programs and agencies addressing import-related issues, budget authority for the International Trade Commission (ITC) would increase by $2 million, or 9 percent. Budget authority for the U.S. Customs Service would remain essentially constant, although 1,446 full-time positions would be eliminated. Trade Adjustment Assistance for firms and workers would be eliminated. Between 1979 and 1984, when the economic recovery was at its peak, the region lost 1.6 million, or 13.7 percent, of its manufacturing jobs. During this period, the region's share of total manufacturing employment declined from 53.6 percent to 50.4 percent.

# II. THE STATE OF THE REGION'S ECONOMY

The economy of much of the Northeast and Midwest began 1986 in its best condition of the decade. The sustained growth of the past three years has helped stabilize population, reduce unemployment, add new jobs, generate additional tax revenues for state and local governments, and promote renewed optimism about the economic prospects of the older industrial states.

Continued low rates of inflation and reduced interest rates in 1985 fueled a boom in consumer borrowing and spending that benefitted the Northeast and Midwest as well as the rest of the nation. This was reflected in healthy employment growth in the region's service sector, as well as in finance and retail trade.

Paralleling the positive indicators, however, are other economic factors that have fostered a sense of uncertainty about the future. Chief among these are record federal deficits and the spiraling trade deficit. Similarly, the benefits of expansion have not been distributed uniformly. Particularly in the Midwest, which has been hit hard by both manufacturing job losses and the farm crisis, several states have lagged behind both the region and the nation and even lost some of the economic ground they gained earlier.

Because of the federal deficit, the U.S. government has competed heavily against other borrowers in the financial markets, keeping interest rates higher than they otherwise might have been. The gap between U.S. savings rates, which historically have been low compared to other industrialized countries, and the needs of government and business borrowers has been filled by foreign investors. In turn, heavy foreign purchases of U.S. debt instruments and foreign investment in private U.S. capital have driven up the exchange value of the dollar against other currencies.

The high value of the dollar contributed to the rapid growth of the nation's trade deficit, which in 1985 reached an all-time high of almost $140 billion. The flood of imports and the loss of export markets for U.S. products cost hundreds of thousands of Americans their jobs, particularly in manufacturing industries concentrated in the region. In addition, exports of agricultural commodities dropped precipitously, exacerbating the worst farm crisis since the 1930s.

### Population

Over the five years following the 1980 census, the population of the Northeast-Midwest region grew by less than 1 percent, while that of the South and West increased by 9 percent. Four states in the region -- Pennsylvania, Iowa, Michigan, and Ohio -- actually lost population in that period.

In 1985, however, the trend appeared to be reversing. Only Iowa -- gripped by the farm crisis -- continued to lose population. The entire region gained 259,000 residents last year, a growth rate of 0.25 percent. That was well below the 1.49 percent registered by the South and West, but the increase in those regions was lower than in previous years.

Between 1980 and 1985, New York gained the most population -- 225,000 -- of any state in the region, while New Hampshire had the fastest growth rate at 8.36 percent. Michigan lost about 174,000 residents, 1.88 percent of its total.

## Employment

An analysis of job trends reveals that employment in the region increasingly is concentrated in service industries. Between 1979 and 1984, the Northeast and Midwest lost close to 1.6 million manufacturing jobs, while at the same time adding almost that many service jobs. Service industry workers in the region now exceed the number employed in manufacturing.

These shifts accounted for the minimal net increase in total non-agricultural employment the region experienced in this period. Fairly strong gains in New England and several Mid-Atlantic states were nearly offset by a loss of over 900,000 jobs in the Midwest, resulting in a five-year regional increase of only 247,500. In comparison, between 1979 and 1984, the South and West added over 4.1 million non-agricultural employees.

More workers in the region are finding employment in the services. In 1979 only 19.5 percent of workers in the Northeast and Midwest held jobs in these sectors; by 1984 the proportion had risen to 23 percent.

Nevertheless, the gain in service jobs in the region (1,536,000), while significant, did not quite make up for the losses in manufacturing (1,553,200). In addition, the regional gain of 18.5 percent in service employment -- from almost 8.3 million to over 9.8 million -- was below the national average of 21.4 percent.

While both the South and West lost manufacturing jobs between 1979 and 1984, the heavily industrialized Midwest suffered the most. Out of a national decline in manufacturing employment of 1.7 million, the Midwest lost almost exactly a million -- 17.3 percent of its previous total. In 1984 manufacturing accounted for only 20.4 percent of the nation's non-agricultural employment; in 1979 the figure was 23.3 percent, while in 1970 it was 21.1 percent. Even with the losses of recent years, 24.9 percent of the Midwestern work force was employed in manufacturing in 1984. In New England the figure was even higher -- 25.4 percent.

These trends showed no signs of abating in 1985. A comparison of employment figures for November 1985 -- the latest available -- with those for the same month a year earlier shows that the Northeast-Midwest region added over 900,000 non-agricultural jobs. The national increase was 2.1 million. The decline in manufacturing employment continued, and was most costly in the Midwest, where six states -- Illinois, Indiana, Iowa, Minnesota, Ohio, and Wisconsin -- suffered losses. Five of those states -- all but Indiana -- went against the national trend and ended 1985 with higher unemployment than in 1984.

Altogether, the region lost almost 218,000 manufacturing jobs in the 12-month period -- nearly 70 percent of the total national loss of 313,000. Service employment in the Northeast and Midwest in that time grew by about 430,000, out of a national gain of 905,000.

Unemployment in the region in November stood at 6.8 percent, down from 7.1 percent a year earlier and equal to the national average. New Hampshire had the lowest jobless rate at 2.7 percent, while Illinois and Ohio were highest at 9.0 percent. The resurgence of the auto industry contributed to a dramatic drop in Michigan, from 10.7 percent to 8.9 percent in 12 months.

## Capital Expenditures

Available capital expenditure data are not as recent as those for employment, and do not reveal the pattern of investment since the recovery began in 1983. However, they do illustrate the close relationship between that form of investment and regional economic conditions.

Capital expenditures in the Northeast-Midwest region in 1982 -- the second year of the recession -- stood at almost $31.5 billion, a 38.5 percent increase from 1977. By contrast, long-term investment in the South and West had increased by almost 73 percent, to over $43 billion. The Northeast-Midwest share of the national total dropped from 47.6 percent to 42.2 percent in this period. In 1972 it had stood at 54 percent.

Subregional trends are even more revealing. Between 1977 and 1982, investment in New England rose by almost 84 percent, well above the national average of 56.5 percent. New England's share of the national total went from 4.5 percent to almost 5.3 percent, clearly helping lay the base for the economic resurgence of the six-state area.

In the Midwest, on the other hand, the story was just the reverse. Capital expenditures increased by only 22.4 percent, and the share of the national total declined from 28.7 percent to 22.5 percent. In Michigan, the state hit hardest in the recession, investment was 6 percent lower in 1982 than five years earlier.

The tables at the end of this chapter give a state-by-state breakdown of trends in population, employment, and capital expenditures.

## State of the Region Interviews

To better gauge the trends and prospects for the region and its subregions, interviews were conducted with three of the leading experts on the economy of the older industrial states. All three see the region's economic future as uncertain. Jim Howell, Ralph Widner, and Nina Klarich each describe the Northeast and Midwest as a region undergoing continued and difficult adjustment. Though none paints a bleak picture of the region's prospects, all stress that economic growth since the 1982 recession has not touched all parts of the region and all sectors equally.

Ralph Widner has long served as a policy strategist for the leaders of the Northeast and Midwest. Former president of the Academy for Contemporary Problems and executive vice president of the Urban Land Institute, Widner now represents the public interests of Philadelphia's largest corporations as executive director of Philadelphia First Corporation.

Widner stresses that "most of the eastern half" of the region has "come out of the trough of its manufacturing decline." These states "have come through their transformation and are on the upside of the slope."

Citing the similarities of the economic recovery in full force in New England and "emerging" in the Mid-Atlantic states, Widner is full of optimism. "Our new firm formation rates are very high," he notes. "It is not hard at all to envision the economy of the future of the major metropolitan areas of the Northeast . . . Boston, New York, Philadelphia, Baltimore." All these cities (and outlying areas going far beyond standard metropolitan statistical areas) will continue to have economies with growing employment in such service areas as health and information management.

According to Widner, an important distinction makes full recovery in the Midwest more difficult to attain:

> In the Northeast, we were reliant on the manufacture of non-durable goods rather than on heavy industry. . . . The whole economic structure of our communities wasn't oriented to these companies in the same way that other communities were built around auto and steel. Those cities like Pittsburgh and Cleveland will continue to have a more difficult period of adjustment.

Widner suggests that some growth in the light manufacturing sector in Eastern seaboard cities has spurred even more service industry growth. "These new companies tend to purchase their support services externally," he explains.

Widner is quick to emphasize that great differences exist in the economic circumstances and future of cities throughout the region. For him, the key factor is the tools each area has to deal with the transformation now under way. "Pity the places that simply have no private capital to invest. It is in these cities and towns where the ongoing loss of federal dollars and federal tools is the most significant. Because they have no way to replace lost services, they become less attractive as a place for new ventures. These cities face a vicious cycle."

The salvation for some of the older "mill towns" throughout the Northeast is their proximity to growing metropolitan areas. "Some of these free-standing towns are now part of the metropolitan fabric," Widner observes. "It is the one-industry towns located further from metropolitan areas that have the greatest dilemma."

Widner believes the prospective loss or reduction of "creative federal economic development mechanisms . . . adds uncertainty to the region's economic future." He cites tax exempt bonding authority, rehabilitation and historic preservation tax credits, and Urban Development Action Grants as important "tools" to ease the region's economic transformation.

* * * *

Nina Klarich is a vice president and chief regional economist of the First National Bank of Chicago. She has served as a member of the Economic Trends Task Force of the Great Lakes Commission and as a counselor to several other regional organizations.

Klarich laments the "limits" of the economic recovery in the Great Lakes states since the 1982 recession. "Employment figures are critical . . . and they show very little growth in our areas of traditional economic strength." Previous economic upturns "have brought much more substantial reemployment in heavy manufacturing," she notes. That is not the case this time, and no likelihood exists that manufacturing employment will rebound.

Klarich points out that service economy growth in the Midwest has been insufficient to make up for the loss of manufacturing jobs. She cautions against the view that the Great Lakes states are going through the same cycle previously experienced by New England and the Mid-Atlantic states. The economic health and new job creation that followed in those areas will not take place inevitably in the Midwest, she says. "Thus, we must be careful when we draw economic policy conclusions about our recovery."

"We are bearing nearly all of the brunt of the changes in our nation's economy. It is a highly localized process, so it hasn't been perceived as a national problem," she stresses

Though she sees many positive signs, including the much-improved fiscal health of the Great Lakes states, Klarich worries about the implications of "replacing high paying manufacturing jobs with service jobs or with self-employment with uncertain income streams. . . . We must keep basic industries in a way that New England did not." She believes that failure of the Midwest to do so will be reflected in reduced income and sales tax receipts and, ultimately, in reduction of "the kind of services these states can provide."

The lack of growth in the agricultural economy also troubles Klarich. "We expect to see the positive impact of the dollar's decline on such industries as agricultural supply and food distribution. But, we haven't seen it yet."

Klarich urges a careful look at the effect of specific federal budget cuts on the region's cities. "You only have to take one look at the budget of the city of Chicago to see how much local activity is supported by federal financial flows." She finds the impact of particular proposed tax law changes much more difficult to predict. "There has not been as much new capital investment as we all hoped for after the 1981 tax bill. Many factors besides tax policy influence these investment decisions."

Klarich's final caution on the region's economic future also relates to federal policy actions now under debate. Referring in particular to such measures as deductibility of state and local taxes and tax-exempt financing, she cites a danger of "turning back responsibilities to state and local governments and at the same time removing the tools with which they can accept these responsibilities."

* * * *

Dr. James Howell is senior vice president and chief economist of the Bank of Boston. He provides further leadership on regional economic issues through his chairmanship of the Council for Economic Action.

Howell predicts that the New England states will "continue to reap jobs from technological growth." He is very optimistic that these states will continue to gain a "full share of the national growth performance."

Howell emphasizes the strength of several elements of the subregional economy, especially the growth of Boston, Portland, Manchester, Burlington, and other cities as regional service centers for finance, education, consulting, and medicine. "However, while much of the region has ridden the high tech revolution to a full employment economy," he asks "what does this mean for those cities that have not participated in the recovery?"

The impact of increased defense spending and the related growth of high tech firms has been uneven. "The high tech revolution has been exurban and suburban, with the exception of a handful of mill towns," Howell says. "I used to believe Lowell (a mill town that has experienced great economic growth) was the rule and Lawrence (which has not experienced such growth) was the exception. Now I realize the reverse is the truth."

Howell explains that much of New England is made up of former mill towns usually dependent on a single industry or employer. The industry mix in many of these cities, as in some of the larger cities, is highly sensitive to labor costs, energy costs, and international competition. Howell believes the region's challenge is to bring about their participation in economic growth. "One-third of the region's labor force is in locations left behind by our very positive revitalization," he says. He joins Ralph Widner in noting the particular dilemma of towns where the tax base and public services are declining, making it more difficult to compete for new ventures.

Larger cities that retain a substantial manufacturing base should look beyond strategies that assist only those industries, Howell argues. Such cities should stress "the next line of technological change."

At least two federal tools can be instrumental in assisting these rebuilding efforts. "We must continue to find ways to write down development costs in cities," Howell says. "Both Urban Development Action Grants and Historic and Rehabilitation Tax Credits have been used to great advantage. They are acknowledged pieces of the economic landscape. Most importantly, they stimulate the private-sector capital formation that is essential for growth."

## Population: 1970-1985
(in thousands)

| Region and State | 1970 | 1980 | 1984 | 1985 | Change, 1980-1985 Number | Change, 1980-1985 Percent | Change, 1984-1985 Number | Change, 1984-1985 Percent |
|---|---|---|---|---|---|---|---|---|
| **New England** | | | | | | | | |
| Connecticut | 3,032 | 3,108 | 3,155 | 3,174 | 66 | 2.12 | 19 | 0.60 |
| Maine | 994 | 1,125 | 1,156 | 1,164 | 39 | 3.47 | 8 | 0.69 |
| Massachusetts | 5,689 | 5,737 | 5,798 | 5,822 | 85 | 1.48 | 24 | 0.41 |
| New Hampshire | 738 | 921 | 978 | 998 | 77 | 8.36 | 20 | 2.04 |
| Rhode Island | 950 | 947 | 962 | 968 | 21 | 2.22 | 6 | 0.62 |
| Vermont | 445 | 511 | 530 | 535 | 24 | 4.70 | 5 | 0.93 |
| Total or Average | 11,847 | 12,349 | 12,579 | 12,661 | 312 | 2.53 | 82 | 0.65 |
| **Mid-Atlantic** | | | | | | | | |
| Delaware | 548 | 594 | 614 | 622 | 28 | 4.71 | 8 | 1.30 |
| Maryland | 3,924 | 4,217 | 4,349 | 4,392 | 175 | 4.15 | 43 | 0.99 |
| New Jersey | 7,171 | 7,365 | 7,517 | 7,562 | 197 | 2.67 | 45 | 0.60 |
| New York | 18,241 | 17,558 | 17,746 | 17,783 | 225 | 1.28 | 37 | 0.21 |
| Pennsylvania | 11,801 | 11,864 | 11,887 | 11,853 | -11 | -0.09 | -34 | -0.29 |
| Total or Average | 41,685 | 41,598 | 42,113 | 42,212 | 614 | 1.48 | 99 | 0.24 |
| **Midwest** | | | | | | | | |
| Illinois | 11,110 | 11,427 | 11,522 | 11,535 | 108 | 0.95 | 13 | 0.11 |
| Indiana | 5,195 | 5,490 | 5,492 | 5,499 | 9 | 0.16 | 7 | 0.13 |
| Iowa | 2,825 | 2,914 | 2,903 | 2,884 | -30 | -1.03 | -19 | -0.65 |
| Michigan | 8,882 | 9,262 | 9,058 | 9,088 | -174 | -1.88 | 30 | 0.33 |
| Minnesota | 3,806 | 4,076 | 4,163 | 4,193 | 117 | 2.87 | 30 | 0.72 |
| Ohio | 10,657 | 10,798 | 10,740 | 10,744 | -54 | -0.50 | 4 | 0.04 |
| Wisconsin | 4,418 | 4,706 | 4,762 | 4,775 | 69 | 1.47 | 13 | 0.27 |
| Total or Average | 46,894 | 48,673 | 48,640 | 48,718 | 45 | 0.09 | 78 | 0.16 |
| Missouri | 4,678 | 4,917 | 5,001 | 5,029 | 112 | 2.28 | 28 | 0.56 |
| Total with Missouri | 51,572 | 53,590 | 53,641 | 53,747 | 157 | 0.29 | 106 | 0.20 |
| **Northeast** | 53,532 | 53,947 | 54,692 | 54,873 | 926 | 1.72 | 181 | 0.33 |
| **Midwest*** | 46,894 | 48,673 | 48,640 | 48,718 | 45 | 0.09 | 78 | 0.16 |
| **Northeast and Midwest*** | 100,426 | 102,620 | 103,332 | 103,591 | 971 | 0.95 | 259 | 0.25 |
| **South** | 58,341 | 70,561 | 75,805 | 76,846 | 6,285 | 8.91 | 1,041 | 1.37 |
| **West** | 44,533 | 53,368 | 57,354 | 58,303 | 4,935 | 9.25 | 949 | 1.65 |
| **South and West** | 102,874 | 123,929 | 133,159 | 135,149 | 11,220 | 9.05 | 1,990 | 1.49 |
| **U.S. Total or Average** | 203,300 | 226,549 | 236,491 | 238,740 | 12,191 | 5.38 | 2,249 | 0.95 |

*Regional totals do not include Missouri figures; they are included under West.

SOURCES: Staff calculations from U.S. Department of Commerce, Bureau of the Census, Census of Population, Publication PC 80-1A1, Vol. 1 (Washington, D.C., 1980); U.S. Department of Labor, Bureau of Labor Statistics, News Release CB 85-229, December 30, 1985.

## Non-Agricultural Employment: 1970-1984
(in thousands)

| Region and State | 1970 Number | 1970 Percent of U.S. Total | 1979 Number | 1979 Percent of U.S. Total | 1984 Number | 1984 Percent of U.S. Total | Change, 1979-1984 Number | Change, 1979-1984 Percent |
|---|---|---|---|---|---|---|---|---|
| **New England** | | | | | | | | |
| Connecticut | 1,197.5 | 1.7 | 1,397.7 | 1.5 | 1,525.7 | 1.6 | 128.0 | 9.2 |
| Maine | 332.2 | 0.5 | 415.9 | 0.5 | 445.5 | 0.5 | 29.6 | 7.1 |
| Massachusetts | 2,261.7 | 3.2 | 2,603.5 | 2.9 | 2,851.7 | 3.0 | 248.2 | 9.5 |
| New Hampshire | 258.5 | 0.4 | 378.5 | 0.4 | 440.2 | 0.5 | 61.7 | 16.3 |
| Rhode Island | 344.1 | 0.5 | 400.0 | 0.4 | 412.2 | 0.4 | 12.2 | 3.1 |
| Vermont | 147.9 | 0.2 | 197.9 | 0.2 | 214.8 | 0.2 | 16.9 | 8.5 |
| Total | 4,541.9 | 6.4 | 5,393.5 | 6.0 | 5,890.1 | 6.2 | 496.6 | 9.2 |
| **Mid-Atlantic** | | | | | | | | |
| Delaware | 216.8 | 0.3 | 256.7 | 0.3 | 280.6 | 0.3 | 23.9 | 9.3 |
| Maryland | 1,349.2 | 1.9 | 1,691.3 | 1.9 | 1,801.7 | 1.9 | 110.4 | 6.5 |
| New Jersey | 2,606.2 | 3.7 | 3,027.2 | 3.3 | 3,338.7 | 3.5 | 311.5 | 10.3 |
| New York | 7,156.4 | 10.1 | 7,179.4 | 7.9 | 7,557.0 | 8.0 | 377.6 | 5.3 |
| Pennsylvania | 4,351.6 | 6.2 | 4,806.1 | 5.3 | 4,647.0 | 4.9 | -159.1 | -3.3 |
| Total | 15,680.2 | 22.2 | 16,960.7 | 18.8 | 17,625.0 | 18.6 | 664.3 | 3.9 |
| **Midwest** | | | | | | | | |
| Illinois | 4,345.6 | 6.1 | 4,883.3 | 5.4 | 4,636.5 | 4.9 | -246.8 | -5.1 |
| Indiana | 1,849.0 | 2.6 | 2,236.3 | 2.5 | 2,131.4 | 2.2 | -104.9 | -4.7 |
| Iowa | 876.9 | 1.2 | 1,131.7 | 1.3 | 1,062.4 | 1.1 | -69.3 | -6.1 |
| Michigan | 3,004.9 | 4.2 | 3,637.1 | 4.0 | 3,343.3 | 3.5 | -293.8 | -8.1 |
| Minnesota | 1,315.3 | 1.9 | 1,767.0 | 2.0 | 1,824.2 | 1.9 | 57.2 | 3.2 |
| Ohio | 3,880.6 | 5.5 | 4,484.7 | 5.0 | 4,248.0 | 4.5 | -236.7 | -5.3 |
| Wisconsin | 1,530.4 | 2.2 | 1,960.2 | 2.2 | 1,941.1 | 2.0 | -19.1 | -1.0 |
| Total | 16,802.7 | 23.8 | 20,100.3 | 22.2 | 19,186.9 | 20.2 | -913.4 | -4.5 |
| Missouri | 1,668.0 | 2.4 | 2,011.1 | 2.2 | 2,014.7 | 2.1 | 3.6 | 0.2 |
| Total with Missouri | 18,470.7 | 26.1 | 22,111.4 | 24.5 | 21,201.6 | 22.4 | -909.8 | -4.1 |
| **Northeast** | 20,222.1 | 28.6 | 22,354.2 | 24.7 | 23,515.1 | 24.8 | 1,160.9 | 5.2 |
| **Midwest*** | 16,802.7 | 23.8 | 20,100.3 | 22.2 | 19,186.9 | 20.2 | -913.4 | -4.5 |
| **Northeast and Midwest*** | 37,024.8 | 52.4 | 42,454.5 | 46.9 | 42,702.0 | 45.1 | 247.5 | 0.6 |
| **South** | 18,724.8 | 26.5 | 26,622.4 | 29.4 | 29,246.1 | 30.9 | 2,623.7 | 9.9 |
| **West** | 14,958.7 | 21.2 | 21,351.2 | 23.6 | 22,838.7 | 24.1 | 1,487.5 | 7.0 |
| **South and West** | 33,683.5 | 47.6 | 47,973.6 | 53.1 | 52,084.8 | 54.9 | 4,111.2 | 8.6 |
| **U.S. Total**[1] | 70,708.3 | 100.0 | 90,428.1 | 100.0 | 94,786.8 | 100.0 | 4,358.7 | 4.8 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. totals do not include Puerto Rico or the Territories.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, Employment, Hours, and Earnings, States and Areas, 1939-82 (Washington, D.C., 1984); Employment and Earnings (Washington, D.C., May 1984, May 1985).

## Manufacturing Employment: 1970-1984
(in thousands)

| Region and State | 1970 Number | 1970 Percent of U.S. Total | 1979 Number | 1979 Percent of U.S. Total | 1984 Number | 1984 Percent of U.S. Total | Change, 1979-1984 Number | Change, 1979-1984 Percent |
|---|---|---|---|---|---|---|---|---|
| **New England** | | | | | | | | |
| Connecticut | 443.7 | 2.3 | 436.3 | 2.1 | 418.6 | 2.2 | -17.7 | -4.1 |
| Maine | 110.4 | 0.6 | 114.6 | 0.5 | 110.4 | 0.6 | -4.2 | -3.7 |
| Massachusetts | 650.5 | 3.4 | 672.1 | 3.2 | 675.9 | 3.5 | 3.8 | 0.6 |
| New Hampshire | 91.8 | 0.5 | 116.5 | 0.6 | 123.3 | 0.6 | 6.8 | 5.8 |
| Rhode Island | 120.9 | 0.6 | 132.6 | 0.6 | 120.6 | 0.6 | -12.0 | -9.0 |
| Vermont | 40.5 | 0.2 | 50.8 | 0.2 | 48.7 | 0.3 | -2.1 | -4.1 |
| Total | 1,457.8 | 7.5 | 1,522.9 | 7.2 | 1,497.5 | 7.7 | -25.4 | -1.7 |
| **Mid-Atlantic** | | | | | | | | |
| Delaware | 71.2 | 0.4 | 70.2 | 0.3 | 70.5 | 0.4 | 0.3 | 0.4 |
| Maryland | 271.1 | 1.4 | 246.9 | 1.2 | 218.1 | 1.1 | -28.8 | -11.7 |
| New Jersey | 861.8 | 4.4 | 799.2 | 3.8 | 729.4 | 3.8 | -69.8 | -8.7 |
| New York | 1,760.6 | 9.1 | 1,492.8 | 7.1 | 1,330.2 | 6.9 | -162.6 | -10.9 |
| Pennsylvania | 1,523.4 | 7.9 | 1,386.8 | 6.6 | 1,119.8 | 5.8 | -267.0 | -19.3 |
| Total | 4,488.1 | 23.2 | 3,995.9 | 19.0 | 3,468.0 | 17.9 | -527.9 | -13.2 |
| **Midwest** | | | | | | | | |
| Illinois | 1,342.1 | 6.9 | 1,271.6 | 6.0 | 985.5 | 5.1 | -286.1 | -22.5 |
| Indiana | 710.2 | 3.7 | 733.2 | 3.5 | 621.1 | 3.2 | -112.1 | -15.3 |
| Iowa | 215.5 | 1.1 | 259.8 | 1.2 | 210.9 | 1.1 | -48.9 | -18.8 |
| Michigan | 1,072.7 | 5.5 | 1,160.2 | 5.5 | 945.8 | 4.9 | -214.4 | -18.5 |
| Minnesota | 319.4 | 1.6 | 381.6 | 1.8 | 373.9 | 1.9 | -7.7 | -2.0 |
| Ohio | 1,407.4 | 7.3 | 1,382.3 | 6.6 | 1,125.1 | 5.8 | -257.2 | -18.6 |
| Wisconsin | 500.9 | 2.6 | 591.3 | 2.8 | 517.8 | 2.7 | -73.5 | -12.4 |
| Total | 5,568.2 | 28.7 | 5,780.0 | 27.4 | 4,780.1 | 24.7 | -999.9 | -17.3 |
| Missouri | 446.1 | 2.3 | 464.4 | 2.2 | 430.9 | 2.2 | -33.5 | -7.2 |
| Total with Missouri | 6,014.3 | 31.1 | 6,244.4 | 29.6 | 5,211.0 | 27.0 | -1,033.4 | -16.5 |
| **Northeast** | 5,945.9 | 30.7 | 5,518.8 | 26.2 | 4,965.5 | 25.7 | -553.3 | -10.0 |
| **Midwest*** | 5,568.2 | 28.7 | 5,780.0 | 27.4 | 4,780.1 | 24.7 | -999.9 | -17.3 |
| **Northeast and Midwest*** | 11,514.1 | 59.4 | 11,298.8 | 53.6 | 9,745.6 | 50.4 | -1,553.2 | -13.7 |
| **South** | 4,794.6 | 24.8 | 5,822.9 | 27.6 | 5,680.7 | 29.4 | -142.2 | -2.4 |
| **West** | 3,060.0 | 15.8 | 3,945.7 | 18.7 | 3,905.2 | 20.2 | -40.5 | -1.0 |
| **South and West** | 7,854.6 | 40.6 | 9,768.6 | 46.4 | 9,585.9 | 49.6 | -182.7 | -1.9 |
| **U.S. Total**[1] | 19,368.7 | 100.0 | 21,067.4 | 100.0 | 19,331.5 | 100.0 | -1,735.9 | -8.2 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. figures do not include Puerto Rico.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, Employment, Hours, and Earnings, States and Areas, 1939-82 (Washington, D.C., 1984); Employment and Earnings (Washington, D.C., May 1984, May 1985).

## Service Employment: 1970-1984
(in thousands)

| Region and State | 1970 |  | 1979 |  | 1984 |  | Change, 1979-1984 |  |
|---|---|---|---|---|---|---|---|---|
|  | Number | Percent of U.S. Total | Number | Percent of U.S. Total | Number | Percent of U.S. Total | Number | Percent |
| **New England** |  |  |  |  |  |  |  |  |
| Connecticut | 184.0 | 1.6 | 272.6 | 1.6 | 335.5 | 1.6 | 62.9 | 23.1 |
| Maine | 43.0 | 0.4 | 74.8 | 0.4 | 90.5 | 0.4 | 15.7 | 21.0 |
| Massachusetts | 467.0 | 4.1 | 601.9 | 3.5 | 750.7 | 3.6 | 148.8 | 24.7 |
| New Hampshire | 43.0 | 0.4 | 69.2 | 0.4 | 90.4 | 0.4 | 21.2 | 30.6 |
| Rhode Island | 55.0 | 0.5 | 79.3 | 0.5 | 97.2 | 0.5 | 17.9 | 22.6 |
| Vermont | 28.0 | 0.2 | 42.4 | 0.2 | 51.6 | 0.2 | 9.2 | 21.7 |
| Total | 820.0 | 7.2 | 1,140.2 | 6.6 | 1,415.9 | 6.8 | 275.7 | 24.2 |
| **Mid-Atlantic** |  |  |  |  |  |  |  |  |
| Delaware | 31.0 | 0.3 | 45.8 | 0.3 | 57.7 | 0.3 | 11.9 | 26.0 |
| Maryland | 233.0 | 2.0 | 343.1 | 2.0 | 440.5 | 2.1 | 97.4 | 28.4 |
| New Jersey | 410.0 | 3.6 | 571.0 | 3.3 | 754.7 | 3.6 | 183.7 | 32.2 |
| New York | 1,361.0 | 11.9 | 1,643.2 | 9.6 | 1,962.0 | 9.4 | 318.8 | 19.4 |
| Pennsylvania | 700.0 | 6.1 | 944.1 | 5.5 | 1,108.3 | 5.3 | 164.2 | 17.4 |
| Total | 2,735.0 | 23.9 | 3,547.2 | 20.7 | 4,323.2 | 20.7 | 776.0 | 21.9 |
| **Midwest** |  |  |  |  |  |  |  |  |
| Illinois | 679.0 | 5.9 | 923.7 | 5.4 | 1,048.4 | 5.0 | 124.7 | 13.5 |
| Indiana | 220.0 | 1.9 | 331.7 | 1.9 | 387.3 | 1.9 | 55.6 | 16.8 |
| Iowa | 141.0 | 1.2 | 203.4 | 1.2 | 224.6 | 1.1 | 21.2 | 10.4 |
| Michigan | 422.0 | 3.7 | 626.7 | 3.7 | 696.5 | 3.3 | 69.8 | 11.1 |
| Minnesota | 216.0 | 1.9 | 354.4 | 2.1 | 417.8 | 2.0 | 63.4 | 17.9 |
| Ohio | 573.0 | 5.0 | 806.2 | 4.7 | 903.8 | 4.3 | 97.6 | 12.1 |
| Wisconsin | 231.0 | 2.0 | 351.9 | 2.0 | 403.9 | 1.9 | 52.0 | 14.8 |
| Total | 2,482.0 | 21.7 | 3,598.0 | 21.0 | 4,082.3 | 19.6 | 484.3 | 13.5 |
| Missouri | 261.0 | 2.3 | 383.2 | 2.2 | 434.8 | 2.1 | 51.6 | 13.5 |
| Total with Missouri | 2,743.0 | 24.0 | 3,981.2 | 23.2 | 4,517.1 | 21.7 | 535.9 | 13.5 |
| **Northeast** | 3,555.0 | 31.1 | 4,687.4 | 27.3 | 5,739.1 | 27.5 | 1,051.7 | 22.4 |
| **Midwest*** | 2,482.0 | 21.7 | 3,598.0 | 21.0 | 4,082.3 | 19.6 | 484.3 | 13.5 |
| **Northeast and Midwest*** | 6,037.0 | 52.8 | 8,285.4 | 48.3 | 9,821.4 | 47.1 | 1,536.0 | 18.5 |
| **South** | 2,775.0 | 24.3 | 4,533.2 | 26.4 | 5,763.4 | 27.7 | 1,230.2 | 27.1 |
| **West** | 2,613.0 | 22.9 | 4,350.3 | 25.3 | 5,252.5 | 25.2 | 902.2 | 20.7 |
| **South and West** | 5,388.0 | 47.2 | 8,883.5 | 51.7 | 11,015.9 | 52.9 | 2,132.4 | 24.0 |
| **U.S. Total**[1] | 11,425.0 | 100.0 | 17,168.9 | 100.0 | 20,837.3 | 100.0 | 3,668.4 | 21.4 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. totals do not include Puerto Rico.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, Employment, Hours, and Earnings, States and Areas, 1939-82 (Washington, D.C., 1984); Employment and Earnings (Washington, D.C., May 1984, May 1985).

**Employment and Unemployment: November 1984-November 1985**

| Region and State | Unemployment Rates | | Total Non-Agricultural Employment (in thousands) | | | |
|---|---|---|---|---|---|---|
| | | | | | Change | |
| | November 1984 | November 1985 | November 1984 | November 1985 | Amount | Percent |
| **New England** | | | | | | |
| Connecticut | 4.2 | 4.2 | 1,564.2 | 1,590.8 | 26.6 | 1.7 |
| Maine | 5.3 | 4.6 | 450.4 | 459.1 | 8.7 | 1.9 |
| Massachusetts | 3.4 | 3.6 | 2,924.5 | 3,021.6 | 97.1 | 3.3 |
| New Hampshire | 3.2 | 2.7 | 453.0 | 483.5 | 30.5 | 6.7 |
| Rhode Island | 4.8 | 4.0 | 418.9 | 422.4 | 3.5 | 0.8 |
| Vermont | 4.6 | 4.6 | 218.7 | 226.2 | 7.5 | 3.4 |
| Total or Average | 3.9 | 3.8 | 6,029.7 | 6,203.6 | 173.9 | 2.9 |
| **Mid-Atlantic** | | | | | | |
| Delaware | 5.2 | 4.3 | 288.9 | 296.8 | 7.9 | 2.7 |
| Maryland | 5.1 | 4.5 | 1,848.9 | 1,923.5 | 74.6 | 4.0 |
| New Jersey | 5.4 | 5.6 | 3,397.8 | 3,493.8 | 96.0 | 2.8 |
| New York | 6.7 | 6.1 | 7,687.5 | 7,835.0 | 147.5 | 1.9 |
| Pennsylvania | 8.1 | 7.6 | 4,737.9 | 4,800.5 | 62.6 | 1.3 |
| Total or Average | 6.6 | 6.2 | 17,961.0 | 18,349.6 | 388.6 | 2.2 |
| **Midwest** | | | | | | |
| Illinois | 8.1 | 9.0 | 4,710.1 | 4,714.2 | 4.1 | 0.1 |
| Indiana | 8.2 | 7.2 | 2,173.0 | 2,259.1 | 86.1 | 4.0 |
| Iowa | 6.4 | 7.4 | 1,077.8 | 1,068.9 | -8.9 | -0.8 |
| Michigan | 10.7 | 8.9 | 3,400.6 | 3,504.8 | 104.2 | 3.1 |
| Minnesota | 6.0 | 6.4 | 1,881.3 | 1,905.6 | 24.3 | 1.3 |
| Ohio | 8.9 | 9.0 | 4,330.2 | 4,450.4 | 120.2 | 2.8 |
| Wisconsin | 6.7 | 6.8 | 1,991.2 | 2,015.1 | 23.9 | 1.2 |
| Total or Average | 8.3 | 8.2 | 19,564.2 | 19,918.1 | 353.9 | 1.8 |
| Missouri | 6.5 | 5.9 | 2,041.8 | 2,043.1 | 1.3 | 0.1 |
| Total with Missouri | 8.1 | 8.0 | 21,606.0 | 21,961.2 | 355.2 | 1.6 |
| **Northeast** | 6.0 | 5.6 | 23,990.7 | 24,553.2 | 562.5 | 2.3 |
| **Midwest*** | 8.3 | 8.2 | 19,564.2 | 19,918.1 | 353.9 | 1.8 |
| **Northeast and Midwest*** | 7.1 | 6.8 | 43,554.9 | 44,471.3 | 916.4 | 2.1 |
| **South** | 7.0 | 7.0 | 29,818.5 | 30,553.5 | 735.0 | 2.5 |
| **West** | 6.8 | 6.7 | 23,277.8 | 23,731.9 | 454.1 | 2.0 |
| **South and West** | 6.9 | 6.9 | 53,096.3 | 54,285.4 | 1,189.1 | 2.2 |
| **U.S. Total or Average**[1] | 7.0 | 6.8 | 96,651.2 | 98,756.7 | 2,105.5 | 2.2 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. totals do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Labor, Bureau of Labor Statistics, "State and Metropolitan Area Employment and Unemployment: November 1985," USDL 86-14, January 14, 1986.

**Manufacturing and Services Employment: November 1984-November 1985**
(in thousands)

| Region and State | Manufacturing<br>November 1984 | Manufacturing<br>November 1985 | Manufacturing Change<br>Amount | Manufacturing Change<br>Percent | Services<br>November 1984 | Services<br>November 1985 | Services Change<br>Amount | Services Change<br>Percent |
|---|---|---|---|---|---|---|---|---|
| **New England** | | | | | | | | |
| Connecticut | 426.4 | 418.5 | -7.9 | -1.9 | 341.1 | 355.2 | 14.1 | 4.1 |
| Maine | 109.4 | 104.8 | -4.6 | -4.2 | 89.8 | 93.2 | 3.4 | 3.8 |
| Massachusetts | 690.1 | 672.7 | -17.4 | -2.5 | 771.7 | 808.5 | 36.8 | 4.8 |
| New Hampshire | 126.5 | 121.1 | -5.4 | -4.3 | 90.9 | 98.4 | 7.5 | 8.3 |
| Rhode Island | 123.0 | 121.1 | -1.9 | -1.5 | 98.2 | 99.3 | 1.1 | 1.1 |
| Vermont | 49.0 | 49.1 | 0.1 | 0.2 | 50.1 | 53.5 | 3.4 | 6.8 |
| Total | 1,524.4 | 1,487.3 | -37.1 | -2.4 | 1,441.8 | 1,508.1 | 66.3 | 4.6 |
| **Mid-Atlantic** | | | | | | | | |
| Delaware | 72.8 | 70.2 | -2.6 | -3.6 | 59.4 | 62.2 | 2.8 | 4.7 |
| Maryland | 217.7 | 211.0 | -6.7 | -3.1 | 451.8 | 474.5 | 22.7 | 5.0 |
| New Jersey | 736.3 | 726.7 | -9.6 | -1.3 | 760.9 | 796.2 | 35.3 | 4.6 |
| New York | 1,340.5 | 1,307.6 | -32.9 | -2.5 | 2,000.3 | 2,072.3 | 72.0 | 3.6 |
| Pennsylvania | 1,116.5 | 1,068.1 | -48.4 | -4.3 | 1,130.0 | 1,193.9 | 63.9 | 5.7 |
| Total | 3,483.8 | 3,383.6 | -100.2 | -2.9 | 4,402.4 | 4,599.1 | 196.7 | 4.5 |
| **Midwest** | | | | | | | | |
| Illinois | 977.6 | 944.6 | -33.0 | -3.4 | 1,058.7 | 1,077.3 | 18.6 | 1.8 |
| Indiana | 621.2 | 613.8 | -7.4 | -1.2 | 391.4 | 422.7 | 31.3 | 8.0 |
| Iowa | 211.2 | 206.0 | -5.2 | -2.5 | 226.4 | 228.3 | 1.9 | 0.8 |
| Michigan | 958.2 | 958.9 | 0.7 | 0.1 | 700.9 | 734.5 | 33.6 | 4.8 |
| Minnesota | 380.4 | 370.4 | -10.0 | -2.6 | 429.8 | 444.2 | 14.4 | 3.4 |
| Ohio | 1,133.6 | 1,113.1 | -20.5 | -1.8 | 917.3 | 972.8 | 55.5 | 6.1 |
| Wisconsin | 519.9 | 514.9 | -5.0 | -1.0 | 409.3 | 421.1 | 11.8 | 2.9 |
| Total | 4,802.1 | 4,721.7 | -80.4 | -1.7 | 4,133.8 | 4,300.9 | 167.1 | 4.0 |
| Missouri | 432.9 | 425.4 | -7.5 | -1.7 | 434.3 | 442.2 | 7.9 | 1.8 |
| Total with Missouri | 5,235.0 | 5,147.1 | -87.9 | -1.7 | 4,568.1 | 4,743.1 | 175.0 | 3.8 |
| **Northeast** | 5,008.2 | 4,870.9 | -137.3 | -2.7 | 5,844.2 | 6,107.2 | 263.0 | 4.5 |
| **Midwest*** | 4,802.1 | 4,721.7 | -80.4 | -1.7 | 4,133.8 | 4,300.9 | 167.1 | 4.0 |
| **Northeast and Midwest*** | 9,810.3 | 9,592.6 | -217.7 | -2.2 | 9,978.0 | 10,408.1 | 430.1 | 4.3 |
| **South** | 5,699.1 | 5,626.3 | -72.8 | -1.3 | 5,875.8 | 6,146.2 | 270.4 | 4.6 |
| **West** | 3,941.5 | 3,919.4 | -22.1 | -0.6 | 5,332.8 | 5,537.3 | 204.5 | 3.8 |
| **South and West** | 9,640.6 | 9,545.7 | -94.9 | -1.0 | 11,208.6 | 11,683.5 | 474.9 | 4.2 |
| **U.S. Total**[1] | 19,450.9 | 19,138.3 | -312.6 | 1.6 | 21,186.6 | 22,091.6 | 905.0 | 4.3 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. figures do not include Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Department of Labor, Bureau of Labor Statistics, "State and Metropolitan Area Employment and Unemployment: November 1985," USDL 86-14, January 14, 1986.

## Share of State Employment in Manufacturing, Services: 1979, 1984, and November 1985
(in percent)

| Region and State | Manufacturing | | | Services | | |
|---|---|---|---|---|---|---|
| | 1979 | 1984 | November 1985 | 1979 | 1984 | November 1985 |
| **New England** | | | | | | |
| Connecticut | 31.22 | 27.44 | 26.31 | 19.50 | 21.99 | 22.33 |
| Maine | 27.55 | 24.78 | 22.83 | 17.99 | 20.31 | 20.30 |
| Massachusetts | 25.82 | 23.70 | 22.26 | 23.12 | 26.32 | 26.76 |
| New Hampshire | 30.78 | 28.01 | 25.05 | 18.28 | 20.54 | 20.35 |
| Rhode Island | 33.15 | 29.26 | 28.67 | 19.83 | 23.58 | 23.51 |
| Vermont | 25.67 | 22.67 | 21.71 | 21.42 | 24.02 | 23.65 |
| Average | 28.24 | 25.42 | 23.97 | 21.14 | 24.04 | 24.31 |
| **Mid-Atlantic** | | | | | | |
| Delaware | 27.35 | 25.12 | 23.65 | 17.84 | 20.56 | 20.96 |
| Maryland | 14.60 | 12.11 | 10.95 | 20.29 | 24.45 | 24.67 |
| New Jersey | 26.40 | 21.85 | 20.80 | 18.86 | 22.60 | 22.79 |
| New York | 20.79 | 17.60 | 16.69 | 22.89 | 25.96 | 26.45 |
| Pennsylvania | 28.85 | 24.10 | 22.25 | 19.64 | 23.85 | 24.87 |
| Average | 23.56 | 19.68 | 18.44 | 20.91 | 24.53 | 25.06 |
| **Midwest** | | | | | | |
| Illinois | 26.06 | 21.26 | 20.04 | 18.93 | 22.61 | 22.85 |
| Indiana | 32.79 | 29.14 | 27.17 | 14.83 | 18.17 | 18.71 |
| Iowa | 22.96 | 19.85 | 19.27 | 17.97 | 21.14 | 21.36 |
| Michigan | 31.90 | 28.29 | 27.36 | 17.23 | 20.83 | 20.96 |
| Minnesota | 21.60 | 20.50 | 19.44 | 20.06 | 22.90 | 23.31 |
| Ohio | 30.82 | 26.49 | 25.01 | 17.98 | 21.28 | 21.86 |
| Wisconsin | 30.17 | 26.68 | 25.55 | 17.95 | 20.81 | 20.90 |
| Average | 28.76 | 24.91 | 23.71 | 17.90 | 21.28 | 21.59 |
| Missouri | 23.09 | 21.39 | 20.82 | 19.05 | 21.58 | 21.64 |
| Average with Missouri | 28.24 | 24.60 | 23.44 | 18.00 | 21.30 | 21.60 |
| **Northeast** | 24.69 | 21.12 | 19.84 | 20.97 | 24.41 | 24.87 |
| **Midwest*** | 28.76 | 24.91 | 23.71 | 17.90 | 21.28 | 21.59 |
| **Northeast and Midwest*** | 26.62 | 22.82 | 21.57 | 19.52 | 23.00 | 23.40 |
| **South** | 21.87 | 19.42 | 18.41 | 17.03 | 19.71 | 20.12 |
| **West** | 18.48 | 17.10 | 16.52 | 20.37 | 23.00 | 23.33 |
| **South and West** | 20.36 | 18.40 | 17.58 | 18.52 | 21.15 | 21.52 |
| **U.S. Average** | 23.30 | 20.39 | 19.38 | 18.99 | 21.98 | 22.37 |

*Regional averages do not include Missouri figures; they are included under West.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, Employment, Hours, and Earnings, States and Areas, 1939-83 (Washington, D.C., 1984); Employment and Earnings (Washington, D.C., May 1984, May 1985); and "State and Metropolitan Area Employment and Unemployment: November 1985," USDL 86-14, Washington, D.C., January 14, 1986.

## New Capital Expenditures
(in millions of dollars)

| Region and State | 1972 Amount | 1972 Percent of U.S. Total[1] | 1977 Amount | 1977 Percent of U.S. Total[1] | 1982 Amount | 1982 Percent of U.S. Total[1] | Change, 1977-1982 Amount | Change, 1977-1982 Percent[1] |
|---|---|---|---|---|---|---|---|---|
| **New England** | | | | | | | | |
| Connecticut | 331.6 | 1.38 | 566.0 | 1.19 | 1,054.2 | 1.41 | 488.2 | 86.25 |
| Maine | 138.9 | 0.58 | 222.9 | 0.47 | 510.3 | 0.68 | 287.4 | 12.90 |
| Massachusetts | 537.5 | 2.24 | 952.8 | 2.00 | 1,667.3 | 2.23 | 714.5 | 128.94 |
| New Hampshire | 99.1 | 0.41 | 162.0 | 0.34 | 246.2 | 0.33 | 84.2 | 74.99 |
| Rhode Island | 100.5 | 0.42 | 145.6 | 0.31 | 183.8 | 0.25 | 38.2 | 26.24 |
| Vermont | 36.8 | 0.15 | 93.0 | 0.20 | 270.9 | 0.36 | 177.9 | 191.29 |
| Total | 1,244.4 | 5.18 | 2,142.3 | 4.49 | 3,932.7 | 5.27 | 1,790.4 | 83.57 |
| **Mid-Atlantic** | | | | | | | | |
| Delaware | 91.5 | 0.38 | 148.2 | 0.31 | 322.1 | 0.43 | 173.9 | 117.34 |
| Maryland | 210.2 | 1.29 | 513.8 | 1.08 | 718.1 | 0.96 | 204.3 | 39.76 |
| New Jersey | 940.1 | 3.92 | 1,376.3 | 2.89 | 2,064.5 | 2.77 | 688.2 | 50.00 |
| New York | 1,506.0 | 6.27 | 2,535.2 | 5.32 | 4,267.1 | 5.72 | 1,731.4 | 68.29 |
| Pennsylvania | 1,479.3 | 6.16 | 2,297.1 | 4.82 | 3,391.3 | 4.54 | 1,094.2 | 47.63 |
| Total | 4,327.1 | 18.03 | 6,870.6 | 14.41 | 10,763.1 | 14.42 | 3,892.5 | 56.65 |
| **Midwest** | | | | | | | | |
| Illinois | 1,564.1 | 6.52 | 2,661.5 | 5.58 | 3,370.6 | 4.52 | 709.1 | 26.64 |
| Indiana | 907.3 | 3.78 | 2,078.0 | 4.36 | 2,232.7 | 2.99 | 154.7 | 7.44 |
| Iowa | 329.4 | 1.37 | 677.8 | 1.42 | 689.6 | 0.92 | 11.8 | 1.74 |
| Michigan | 2,071.4 | 8.63 | 3,739.2 | 7.84 | 3,512.8 | 4.71 | -226.4 | -6.05 |
| Minnesota | 305.5 | 1.27 | 576.4 | 1.21 | 1,195.5 | 1.60 | 619.1 | 107.41 |
| Ohio | 1,695.4 | 7.06 | 2,790.7 | 5.85 | 4,230.1 | 5.67 | 1,439.4 | 51.58 |
| Wisconsin | 535.3 | 2.23 | 1,184.4 | 2.48 | 1,547.2 | 2.07 | 362.8 | 30.63 |
| Total | 7,408.1 | 30.86 | 13,708.0 | 28.75 | 16,778.5 | 22.48 | 3,070.5 | 22.40 |
| Missouri | 359.9 | 1.50 | 780.9 | 1.64 | 1,340.5 | 1.80 | 559.6 | 71.66 |
| Total with Missouri | 7,768.0 | 32.36 | 14,488.9 | 30.38 | 18,119.0 | 24.28 | 3,630.1 | 25.05 |
| **Northeast** | 5,571.5 | 23.21 | 9,012.9 | 18.90 | 14,695.8 | 19.69 | 5,682.9 | 63.05 |
| **Midwest*** | 7,408.4 | 30.86 | 13,708.0 | 28.75 | 16,778.5 | 22.48 | 3,070.5 | 22.40 |
| **Northeast and Midwest*** | 12,979.9 | 54.07 | 22,720.9 | 47.65 | 31,474.3 | 42.17 | 8,753.4 | 38.53 |
| **South** | 7,268.9 | 30.28 | 17,077.8 | 35.81 | 27,996.3 | 37.52 | 10,918.5 | 63.93 |
| **West** | 3,756.8 | 15.65 | 7,888.0 | 16.54 | 15,153.1 | 20.31 | 7,265.1 | 92.10 |
| **South and West** | 11,025.7 | 45.93 | 24,965.8 | 52.35 | 43,149.4 | 57.83 | 18,183.6 | 72.83 |
| **U.S. Total** | 24,005.6 | 100.00 | 47,686.7 | 100.00 | 74,623.7 | 100.00 | 26,937.0 | 56.49 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Percentages may not total due to rounding.

SOURCE: Staff calculations from U.S. Department of Commerce, Bureau of the Census, 1982 Census of Manufactures, Georgraphic Area Series (Washington, D.C., 1985).

# III. IMPACT OF GRAMM-RUDMAN-HOLLINGS

The effects of the Gramm-Rudman-Hollings deficit reduction law are seen throughout President Reagan's fiscal 1987 budget request. Not only have the proposed department and agency budgets been designed to meet the $144 billion deficit ceiling mandated by Gramm-Rudman-Hollings, but the baselines for fiscal 1986 used in the request reflect the sequestration order scheduled to take effect on March 1.

The fate of at least part of Gramm-Rudman-Hollings has been cast in doubt by a special three-judge federal panel, which on February 7 found a critical section of the law to be unconstitutional. The ruling applied only to the section requiring automatic, uniform spending cuts if Congress and the president fail, through legislation, to reduce the federal budget deficit to levels specified in the law. That decision is being appealed to the Supreme Court, which should decide the case later this year.

Despite the ruling, both the spending cut mandated for fiscal 1986 and the entire Gramm-Rudman-Hollings law will remain in effect, at least until the Supreme Court reviews the case.

Enactment last year of Gramm-Rudman-Hollings -- its formal title is the Balanced Budget and Emergency Deficit Control Act of 1985 -- marked a radical departure in the way the president and Congress devise the federal budget. The law changed the previous federal budget process in three fundamental ways.

First, it set annual ceilings on the federal budget deficit, starting at $171.9 billion in fiscal 1986 and declining by $36 billion each year until the budget is balanced in fiscal 1991. For the first time, under this new budget process, the president is required to submit and Congress is required to adopt a budget whose deficit meets the specified target. The deficit target for fiscal 1987 is $144 billion.

Second, it established a new -- and unprecedented -- emergency deficit reduction procedure that would trigger automatic spending cuts at the beginning of any fiscal year for which the deficit is projected to exceed its target. Under this process, called "sequestration," the automatic cuts would be made on an across-the-board basis and would be divided equally between defense and non-defense programs.

The process already is under way for fiscal 1986. On February 1, the president issued his first "sequestration" order, calling for $11.7 billion in automatic spending reductions. These reductions are to be achieved through uniform, across-the-board cuts of 4.9 percent on all non-exempt defense spending and 4.3 percent on all non-exempt non-defense programs.

Third, Gramm-Rudman-Hollings substantially changed many of the procedures that govern the congressional budget process prior to sequestration. Almost all of these changes are designed to accelerate the timetable for presidential submission of budgets and congressional approval of budget resolutions, reconciliation measures, and appropriations bills, and to help Congress better enforce its own budgeting procedures. The legislation also requires Congress to adopt one budget resolution -- instead of two -- and makes that resolution binding upon adoption.

The newly enacted Gramm-Rudman-Hollings budget plan has been called the most massive -- and potentially significant -- reform of the federal budget process in the last ten years. It constitutes the first major amendment to the 1974 Congressional Budget and Impoundment Control Act, which created the congressional budget process that has been followed since.

Until 1974, no means existed for Congress to establish its own budget plan. Instead, budgets were patched together principally by the appropriations and revenue committees through a series of bills, with no single committee -- or even the Congress -- reviewing the federal budget as a whole. As a result, Congress usually did not know until well into the fiscal year how much money actually would be spent or how much revenue would be raised — or what the size of the federal budget deficit, or surplus, would be.

With the 1974 legislation, Congress asserted its authority over the budget process. The law enabled Congress to review the budget requests of the president and the authorization and appropriations committees, scrutinize economic forecasts, impose reconciliation actions, and -- perhaps most important -- develop its own budget plan.

Nevertheless, in recent years the 1974 budget process has been subject to increasing criticism. Many observers argued that the process was not working as intended. In particular they pointed to Congress's inability to deal decisively with ever-increasing federal deficits. It was in this context -- reflecting impatience with recurring $200 billion deficits -- that last December Congress passed and the president signed the Gramm-Rudman-Hollings bill, which requires that the federal deficit be eliminated by 1991 either through conventional legislative means or, failing that, through unprecedented, automatic spending cuts.

Whether the new law will be successful in forcing a balanced budget by 1991 -- in effect bringing our nation's spending and taxing policies in line with each other -- cannot be known at this time.

## The Constitutionality of Gramm-Rudman-Hollings

The impact of Gramm-Rudman-Hollings was further complicated on February 7 when a special three-judge panel unanimously struck down a key portion of the legislation, ruling that its automatic budget-cutting provision is unconstitutional.

The judges ruled that the law violates the constitution's separation of powers requirement by giving executive branch decision-making authority to a legislative branch officer, the comptroller general. The comptroller general directs the General Accounting Office (GAO).

The judgement came in lawsuits filed by Representative Mike Synar (D-OK) and 11 other members of the House, and the National Treasury Employees Union. It affects only the automatic cut procedure authorized under Gramm-Rudman-Hollings, leaving intact the law's deficit targets, the fallback provision established for making the uniform cuts, and the many changes aimed at tightening up budgetary procedures.

The judges stayed the effect of their ruling until an appeal, which was filed immediately, is resolved. Under the terms of the statute, an appeal goes directly to the Supreme Court, which may not decline the case. Thus, the ruling leaves undisturbed the $11.7 billion in fiscal 1986 spending cuts scheduled for March 1.

The court said, in effect, that the lawsuits raised two basic issues: whether Congress could delegate its authority to make spending decisions, and if so, to whom.

The court decided that Congress did not give away too much power, as some had argued; it simply gave it to an inappropriate official. Congress could make the delegation of power involved in the automatic spending cut procedure, but not to the comptroller general, who, though appointed by the president, is in effect under the control of Congress because it alone has the power to remove him. As a result, the role of the comptroller general was considered to violate the constitutional principle of separation of powers.

Concerned that the automatic spending cut trigger might be unconstitutional, Congress included "fallback" procedures for making the uniform cuts required under Gramm-Rudman-Hollings. The panel said it "saw no reason to doubt" the constitutionality of the fallback.

Should the Supreme Court uphold the February 7 decision, the fallback method for making the uniform spending cuts would be as follows:

The Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) would, as under the automatic procedure, jointly prepare a report each August on whether the deficit for the upcoming fiscal year would exceed the deficit target in the law.

However, this report would not go to GAO and then to the president for promulgation, as under the automatic procedure. Instead, it would go to Congress, where a special joint House-Senate budget committee would have five days in which to report the CBO-OMB findings as a joint resolution.

That resolution would be brought to both chambers under expedited procedures; it would take effect only if passed by both and signed by the president. The law specifies that the resolution may not be amended, either in committee or on the floor. However, it must be pointed out that these prohibitions are rules of each chamber, meaning that either could change its rules unilaterally to permit amendments. Also, under the fallback, no sanctions would be imposed if the budget committees failed to report a resolution within the prescribed five days.

## Implications of the Law

Administration officials and members of Congress agree that fiscal 1987 will be the crucial year for the Gramm-Rudman-Hollings law, whether or not the automatic deficit reduction procedure is found unconstitutional. This is because under the February 7 court decision, Congress and the president still have to meet the deficit reduction targets required under Gramm-Rudman-Hollings, since the courts did not invalidate the requirement in the new law that the budget be balanced by 1991.

In addition, the court ruling does not diminish political pressures on Congress and the president to reduce deficits; indeed, it even may increase them. Supporters of the legislation argue that the judges did not disapprove the basic framework of the law, thus affirming the right of Congress to delegate certain powers -- in this case, the determination of the size of the deficit -- to executive agencies, but instead based their decision on a much narrower objection, to the involvement of the comptroller general in the process. Therefore, these supporters are likely to continue to push for a system of across-the-board cuts if Congress and the president, through legislative means, do not agree on a budget that keeps the deficit below the mandated targets.

However, the ruling, if upheld by the Supreme Court, would undercut the power of the law's supporters to force Congress and the president to agree to specific budget cuts. Without the automatic trigger, the new law -- and its fallback system -- has much of the vulnerability of the budget process it was designed to replace. The budget cuts would have to be made in legislation passed by Congress and signed by the president.

If indeed this fallback position -- or the automatic deficit reduction procedure, if it is upheld by the Supreme Court -- actually goes into effect and is maintained, it will have very different impacts on states and localities in the various regions of the country. It is impossible at this time to determine exactly which communities will lose funds and how much.

However, the table on the next page gives some preliminary estimates of what the 4.3 percent cut assumed under Gramm-Rudman-Hollings for non-defense programs in fiscal 1986 might mean to states and localities in the Northeast and Midwest currently receiving federal grant-in-aid funds. The table shows that in fiscal 1986, the region stands to lose $1.241 billion in new budget authority for these programs, or 45 percent of the total U.S. reduction. The table also provides preliminary estimates of what a possible 1987 cut of 20 percent in grant-in-aid programs might mean for states and localities in the Northeast and Midwest. The table shows that they would lose approximately $6.032 billion under this scenario.

To fully understand the impact of Gramm-Rudman-Hollings on states and localities, however, two additional factors must be considered. First, to put these cuts in context, the amount by which these programs already were cut in past years must be examined. For example, the Urban Development Action Grant program already has been cut by 51 percent, from $675 million in 1981 to $330 million in 1986. Second, the fiscal and economic conditions of the communities must be analyzed to determine how well communities will be able to make up for past federal funds and services.

## Potential Impact of Gramm-Rudman-Hollings Act on Grant-in-Aid Programs[1]
(in thousands of dollars)

| Region and State | 1986 Reduction (Based on 4.3 Percent Cut) Budget Authority | 1986 Reduction (Based on 4.3 Percent Cut) Outlays | 1987 Reduction (Based on 20 Percent Cut) Budget Authority | 1987 Reduction (Based on 20 Percent Cut) Outlays |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | 44,003 | 10,854 | 217,907 | 78,973 |
| Maine | 14,525 | 4,823 | 83,006 | 42,349 |
| Massachusetts | 79,917 | 20,002 | 383,998 | 143,055 |
| New Hampshire | 11,189 | 2,894 | 60,165 | 23,110 |
| Rhode Island | 16,717 | 4,029 | 84,614 | 29,507 |
| Vermont | 8,138 | 2,750 | 41,398 | 18,911 |
| Total | 174,489 | 45,351 | 871,088 | 335,905 |
| **Mid-Atlantic** | | | | |
| Delaware | 8,871 | 2,252 | 46,079 | 17,754 |
| Maryland | 55,640 | 15,630 | 271,731 | 112,334 |
| New Jersey | 90,992 | 22,398 | 451,027 | 172,560 |
| New York | 260,196 | 70,201 | 1,257,082 | 510,201 |
| Pennsylvania | 142,441 | 41,892 | 685,734 | 290,119 |
| Total | 558,140 | 152,373 | 2,711,653 | 1,102,968 |
| **Midwest** | | | | |
| Illinois | 130,530 | 37,479 | 627,851 | 265,797 |
| Indiana | 50,147 | 14,271 | 247,838 | 108,922 |
| Iowa | 29,629 | 8,904 | 144,064 | 64,343 |
| Michigan | 95,844 | 29,778 | 454,155 | 210,467 |
| Minnesota | 46,696 | 14,972 | 222,589 | 102,422 |
| Ohio | 108,116 | 29,650 | 529,101 | 222,527 |
| Wisconsin | 47,064 | 15,192 | 224,067 | 107,526 |
| Total | 508,027 | 150,248 | 2,449,665 | 1,082,004 |
| Missouri | 50,927 | 14,682 | 251,430 | 107,744 |
| Total with Missouri | 558,954 | 164,929 | 2,701,095 | 1,189,748 |
| **Northeast** | 732,629 | 197,724 | 3,582,741 | 1,438,873 |
| **Midwest*** | 508,027 | 150,248 | 2,449,665 | 1,082,004 |
| **Northeast and Midwest*** | 1,240,656 | 347,972 | 6,032,406 | 2,520,877 |
| **South** | 817,728 | 247,385 | 3,949,288 | 1,732,477 |
| **West** | 668,744 | 231,920 | 3,221,923 | 1,544,867 |
| **South and West** | 1,486,473 | 479,305 | 7,171,211 | 3,277,344 |
| **U.S. Total[2]** | 2,727,129 | 827,277 | 13,203,617 | 5,798,221 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Regional totals may not add due to rounding.
[2] U.S. figures do not include funds for Puerto Rico or the Territories.

SOURCES: Staff calculations from Federal Funds Information for States, memorandum, December 27, 1985; Federal Register, January 15 and 21, 1985.

## The Gramm-Rudman-Hollings Budget Schedule

### The Fiscal 1986 Sequestration Process

Because the fiscal year already was under way when the legislation was enacted, special rules for fiscal 1986 apply to the new process of automatic spending cuts, known as "sequestration." Specifically, the rules limit the automatic spending cuts that can be ordered in fiscal 1986 to a maximum of $11.7 billion, regardless of the amount by which the deficit target is exceeded, and establish a special timetable for the sequestration process.

Under this special timetable, the Gramm-Rudman-Hollings deficit reduction plan began on January 10, when CBO and OMB took a "snapshot" of the fiscal 1986 deficit. The next step occurred on January 15, when CBO and OMB reported to GAO their projections of the fiscal 1986 deficit and calculations of the automatic spending cuts, in both dollars and percentage terms, required by Gramm-Rudman-Hollings. In the case of disagreements between CBO and OMB, an average of their estimates was used. GAO then reviewed these CBO-OMB estimates and issued its own report on January 21. This report, which determined that $11.7 billion in spending reductions indeed would be necessary in fiscal 1986, represented the final determinations needed by the president to prepare his sequestration order.

The president issued this order on February 1; and, in putting it together, he had to follow the January 21 GAO report. Unless Congress acts to pass an alternative budget deficit reduction plan, the president's sequestration order automatically goes into effect on March 1.

### The Fiscal 1987 Sequestration Process

Under Gramm-Rudman-Hollings, a similar procedure for sequestration would be followed later in the year, affecting fiscal 1987. The major difference is that it would be a two-step process. CBO, OMB, and GAO would make an initial set of deficit and spending projections in August, with the president issuing a preliminary sequestration order on September 1. Congress then would have a month to enact legislation bringing the deficit under the limit through conventional means. Early in October, the three agencies would make revised determinations, based on congressional action, of the automatic cuts needed, and the president then would issue his final spending reduction order on October 15.

Specifically, the Gramm-Rudman-Hollings process for fiscal 1987 would not begin until August 15, when CBO and OMB, in preparation for a possible sequestration order, take a "snapshot" of the year's deficit. The second step of the new deficit reduction process would occur on August 20, when CBO and OMB issue a report to GAO outlining their deficit projections and the potential level of spending cuts. If CBO and OMB differ in their estimates, averages of their figures would be used. GAO is required to review the CBO-OMB estimates and issue its own report on August 25. In making its determinations, GAO must give "due regard" to the CBO-OMB report, but is allowed to make any revisions it deems necessary in the CBO-OMB figures.

Under the new legislation, the automatic spending reduction process, called sequestration, would be triggered in fiscal 1987 and subsequent years until 1990 if GAO finds that the projected deficit exceeds the target deficit by more than $10 billion. If the process is triggered, the president must issue a sequestration order by September 1, strictly following the August 25 GAO report. Except for some limited flexibility in the area of defense spending, Gramm-Rudman-Hollings gives the president no discretion in issuing the order, or in determining how or by how much spending is to be cut. Pursuant to such an order, spending would be withheld beginning on October 1, but not cancelled permanently until the final order is issued on October 15.

If a September order is issued, it would not take effect immediately, however. Congress has one month to come up with its own plan to reduce the deficit by the required amount and to pass legislation implementing it.

CBO and OMB then are required to issue a revised report to GAO on October 5, indicating the extent to which the deficit has been decreased due to congressional actions taken since their August 20 reports, and providing new calculations of the automatic spending cuts needed. GAO is required to review this new CBO-OMB report and issue its own revised report on October 10. The revised GAO report will represent the final determination of the spending cuts to be made through the Gramm-Rudman-Hollings sequestration process.

On October 15, the president would issue his revised and final sequestration order, in accordance with the revised GAO report. This order takes effect immediately upon issuance.

## The Sequestration Order

The Gramm-Rudman-Hollings deficit reduction plan establishes a very specific set of steps and series of guidelines for estimating the deficit each year, and for calculating the amount of funds that must be cut automatically -- or "sequestered" -- under the new law.

First, Gramm-Rudman-Hollings details the **baseline** to be used in the sequestration process. It states, with certain exceptions, that the baseline should assume that federal spending and revenues would continue at levels provided by laws currently in effect, and that expiring laws would not be in force in the upcoming fiscal year. However, in situations where regular appropriation bills or 12-month continuing resolutions have not been enacted, the previous year's appropriation levels would be used instead. In addition, spending or tax changes in reconciliation legislation would not be assumed unless that legislation had been signed into law.

Below is a table that compares the CBO, OMB, and GAO baseline level estimates of total revenues, outlays, and the deficit for fiscal 1986.

**Budget Baseline Levels: Fiscal 1986**
(in billions of dollars)

| Budget Aggregates | CBO Estimates | OMB Estimates | Average | GAO Estimates |
|---|---|---|---|---|
| Revenues | 777.2 | 774.9 | 776.0 | 776.0 |
| Outlays | 998.0 | 994.9 | 996.5 | 996.5 |
| Deficit | 220.9 | 220.1 | 220.5 | 220.5 |

As the table shows, the deficit estimates of the three agencies were remarkably close. CBO's deficit estimate for fiscal 1986 was $220.0 billion, and OMB's deficit estimate was $220.1 billion. The average of these two deficit estimates, which GAO adopted and which is the final deficit estimate it sent to the president in its January 21 report, was $229.5 billion.

This estimate is considerably higher than the $171.9 billion deficit limit set by the Gramm-Rudman-Hollings legislation, exceeding it by $48.6 billion. However, under a special rule applicable only in fiscal 1986, the size of any automatic spending cut is limited to $11.7 billion, regardless of how far above the maximum allowable deficit the projected deficit might be. This $11.7 billion figure represents an annual spending reduction of $20 billion, prorated over the seven months that will remain in the fiscal year when the automatic cuts take place.

Second, Gramm-Rudman-Hollings requires that the $11.7 billion in fiscal 1986 spending cuts ordered by sequestration be divided **equally between defense and non-defense** programs. For defense programs, the reductions are to be obtained by sequestering new budget authority and unobligated balances of budget authority provided in previous years. For non-defense programs, they are to be made by sequestering the following budgetary resources: new budget authority, new loan guarantee commitments, new direct loan obligations, entitlement authority, and obligation limitations. Unobligated balances for non-defense programs cannot be sequestered.

Third, Gramm-Rudman-Hollings specifies that the sequestration order making the automatic spending cuts would, with some exceptions, reduce all non-exempt programs by **uniform, across-the-board percentages**. It is important to note, however, that these percentages would be computed separately for defense and non-defense spending, so that all non-exempt defense programs would be reduced by a uniform percentage and non-exempt non-defense programs would be reduced by another uniform percentage.

Accordingly CBO, OMB, and GAO all have determined that the cuts required under sequestration for fiscal 1986 are to be achieved through across-the-board reductions of 4.9 percent in defense programs and 4.3 percent in non-defense programs. It should be noted, however, that if the special deficit reduction limit of $11.7 billion had not been applied and the full $48.6 billion deficit excess had to be eliminated, the overall percentage reduction for fiscal 1986 would have been 21.8 percent for defense programs and 20.3 percent for non-defense programs.

The law also provides that these uniform percentage reductions for defense and non-defense are to be applied, within each category, at the level of individual "programs, projects and activities" as outlined by the most recently enacted appropriations legislation and committee reports accompanying such legislation.

Fourth, Gramm-Rudman-Hollings **exempts** a number of programs and activities of the federal government from the sequestration process. These include: Social Security, veterans compensation and pensions, regular state unemployment insurance benefits, Medicaid, AFDC, Food Stamps, Earned Income Tax Credits, Supplemental Security Income, Child Nutrition, WIC, Railroad Retirement (Tier 1) benefits, and interest on the national debt.

Certain programs and activities, while not exempt, also are subject to special rules that have the effect of limiting the amount of the spending reduction. For example, reductions in five health programs -- Medicare, veterans health, Indian health, community health, and migrant health -- are limited to one percent in fiscal 1986 and 2 percent thereafter.

In addition, reductions in indexed programs, such as entitlements with "automatic spending increases," including cost-of-living adjustments (COLAs), are restricted to the increases only; these could be reduced to zero if needed, but basic benefits could not be touched. Under the new law, savings in retirement programs with COLAs are limited to no more than half of the total savings required in any given year, and are to be credited half to the defense budget and half to the non-defense budget for purposes of the sequestration order.

The legislation also states that cuts from three other indexed programs -- the National Wool Act, the special milk program, and vocational rehabilitation -- are to be treated the same as the COLA programs, except that the resulting savings are to be credited entirely to the non-defense side of the budget.

Finally, special sequestration rules are provided for the following programs:

- **Guaranteed Student Loans** -- Only new loan guarantees made after the president's sequestration order is issued are subject to cuts, with savings limited to a 0.4 percentage point reduction in the federal subsidy and a 0.5 percentage point increase in the registration fee paid by students.
- **Unemployment Compensation** -- Regular benefits cannot be cut, but federal payments to states for administration and extended benefits can be reduced. States also are allowed to reduce their share of extended benefit payments if the federal share is reduced.
- **Federal Pay** -- Federal pay rates, for both military and civilian personnel, are not subject to reduction.
- **Commodity Credit Corporation** -- Cuts can be made only in contracts entered into after the sequestration order is issued, and uniform reductions must be made in all payments for a particular crop. In addition, although outlay reductions would occur in the year following sequestration, they are to be credited in the sequestration year.
- **Foster Care and Adoption Assistance** -- Only increases in foster care maintenance payment rates and adoption assistance payments can be sequestered.
- **Child Support Enforcement** -- Only federal matching rates for state administrative expenses can be cut.

For fiscal 1986, the legislation also gives the president special authority to exempt all or part of the military personnel accounts from the automatic reductions required under sequestration, provided that he offsets such an exemption by increasing the cuts made in other defense programs. The president has chosen to exercise this authority by excluding most military personnel funds from the fiscal 1986 cuts. It should be noted that if the president had not opted to use this one-time authority to exempt military personnel -- that is, if the cuts had been calculated under the rules that will apply in future years -- the percentage reduction needed for non-exempt defense programs would have been only 3.1 percent instead of 4.9 percent.

In addition, Gramm-Rudman-Hollings grants the Defense Department special authority in fiscal 1986 only to reallocate cuts among programs and projects within each broad defense spending account. Subject to certain restrictions, the department is permitted to make cuts in particular items up to twice the overall percentage to reduce or eliminate cuts in other items within the same account. The Pentagon has used these special powers to exempt the Strategic Defense Initiative program and 19 other specific procurement and research programs from any automatic fiscal 1986 cuts.

Finally, Gramm-Rudman-Hollings gives the Defense Department authority to substitute cuts in spending under existing contracts for cuts in new budget authority and unobligated balances, provided that the total required reduction in each program, project, or activity is achieved. The department has chosen not to use this authority in fiscal 1986, however. Unlike the other forms of flexibility that apply only to the current year, this flexibility will be available in subsequent years as well.

The table on the next page shows that a relatively small portion of 1986 outlays will be affected by the sequestration process. Only about $110 billion of estimated 1986 outlays for defense spending, or 40 percent of total defense spending, is associated with budgetary resources subject to an across-the-board cut. The special 1986 exemption for military personnel accounts made by the president removed approximately $63 billion in outlays, or 23 percent of averall defense spending, from the sequesterable portion. Another $100 billion, or 37 percent of the total defense budget, is associated with spending from obligated prior-year appropriations, and, thereby, is exempt.

About $240 billion, or one-third of estimated outlays, for non-defense programs is associated with resources that can be sequestered. Nearly $50 billion is for programs with automatic spending increases or COLAs, primarily military and federal civilian employee retirement and disability programs. For these programs, the amount of spending reductions is limited to the cost-of-living adjustments, which generally are 3.1 percent in 1986. Another $87 billion in non-defense outlays is associated with programs such as Medicare, Guaranteed Student Loans, and foster care and adoption assistance that are subject to special rules. These rules have the effect of limiting the extent of the spending reductions.

As a result, only slightly more than $100 billion in 1986 outlays is subject to an across-the-board percentage reduction.

Over $380 billion -- or more than one-half of total estimated outlays for non-defense programs -- is entirely exempt from sequestration. As the table on the next page shows, the major exempt program outlays are mostly for Social Security and net interest. The remaining portion of non-defense outlays, about $100 billion, which is not subject to sequestration, results from budgetary resources provided in previous years or from prior legal obligations.

## Baseline Outlay Estimates: Fiscal 1986
(in billions of dollars)

| Category | CBO Estimates | OMB Estimates | Average | Percent of U.S. Total |
|---|---|---|---|---|
| **Defense Programs** | | | | |
| Subject to Sequestration | 112.4 | 106.2 | 109.3 | 40.07 |
| Exempt Programs | | | | |
| Military Personnel Accounts | 63.1 | 63.1 | 63.1 | 23.13 |
| Outlays from prior-year obligations | 99.0 | 101.6 | 100.3 | 36.77 |
| **Total** | 162.1 | 164.7 | 163.4 | 59.90 |
| **Total Defense Programs** | **274.6** | **270.9** | **272.8** | **100.00** |
| **Non-Defense Programs** | | | | |
| Subject to Sequestration | | | | |
| Programs with automatic spending increases (COLAs) | 48.4 | 48.9 | 48.6 | 6.72 |
| Special rule programs | 87.1 | 87.0 | 87.1 | 12.04 |
| Across-the-board reductions | 106.1 | 104.3 | 105.2 | 14.54 |
| **Total** | 241.6 | 240.2 | 240.9 | 33.29 |
| Exempt Programs | | | | |
| Social Security and railroad retirement tier 1 | 202.0 | 202.6 | 202.3 | 27.95 |
| Net interest | 136.9 | 137.9 | 137.4 | 18.99 |
| Earned income tax credit | 1.3 | 1.3 | 1.3 | 0.18 |
| Low-income programs | 61.1 | 60.9 | 61.0 | 8.43 |
| Veterans compensation and pensions | 14.3 | 14.3 | 14.3 | 1.98 |
| State unemployment benefits | 18.1 | 18.2 | 18.2 | 2.51 |
| Outlays from prior-year obligations | 98.7 | 98.8 | 98.8 | 13.54 |
| Offsetting receipts | -50.5 | -50.2 | -50.4 | -6.96 |
| **Total** | 481.9 | 483.8 | 482.9 | 66.73 |
| **Total Non-Defense Programs** | **723.4** | **724.0** | **723.7** | **100.00** |
| **Total Federal Spending** | **998.0** | **994.9** | **996.5** | **100.00** |

Fifth, the Gramm-Rudman-Hollings deficit reduction plan sets forth very detailed guidelines on **the way in which the amount and distribution of the automatic cuts required under sequestration are to be determined.** Below is a step-by-step description of these procedures, which must be followed in this order:

- The amount of spending for exempt defense and non-defense programs must be calculated, and subtracted from the total level of spending in each category to determine the amount of defense and non-defense spending that is non-exempt and, thereby, subject to sequestration. As the summary table below shows, it is estimated that in fiscal 1986 only $109.3 billion in defense spending and $240.9 billion in non-defense spending, for a total of $350.2 billion -- about 35 percent of all spending -- would be subject to sequestration. The remaining $646.3 billion, or 65 percent of the budget, would be exempt.

**Exempt and Non-Exempt Programs: Fiscal 1986**
(in billions of dollars)

| Category | CBO Estimates | OMB Estimates | Average | Percent of U.S. Total |
|---|---|---|---|---|
| **Exempt Programs** | | | | |
| o Defense | 162.1 | 164.7 | 163.4 | 16.40 |
| o Non-Defense | 481.9 | 483.8 | 482.9 | 48.45 |
| Total Exempt Programs | 644.0 | 648.5 | 646.3 | 64.86 |
| **Non-Exempt Programs** | | | | |
| Subject to Across-the-Board Reductions | | | | |
| o Defense | 112.4 | 106.2 | 109.3 | 10.97 |
| o Non-Defense | 106.1 | 104.3 | 105.2 | 10.56 |
| Total | 218.5 | 210.5 | 214.5 | 21.53 |
| Subject to COLA Reductions and Special Rules | | | | |
| o Non-Defense | 135.5 | 135.9 | 135.7 | 13.62 |
| Total Non-Exempt Programs | 354.0 | 346.4 | 350.2 | 35.14 |
| **Total Federal Spending** | **998.0** | **994.9** | **996.5** | **100.00** |

- The total deficit reduction required under sequestration is calculated, and divided equally among non-exempt defense and non-defense programs. For fiscal 1986, CBO, OMB, and GAO all determined that $11.7 billion in outlay reduction would be needed, one-half of which -- $5.85 billion -- would be obtained from defense programs and the other half from non-defense programs.

- The amount of savings available from freezing non-exempt retirement COLAs is determined, and subtracted equally from the defense and non-defense categories. These savings are limited to no more than one-half of the total savings needed in any year. For fiscal 1986, the three agencies estimated that $994 million in outlay savings can be achieved by eliminating the automatic spending increases scheduled for civil service, military, and other federal retirement and disability programs.

- The amount of savings available from freezing other, non-exempt indexed programs and from programs governed by special rules -- such as Medicare, foster care and adoption assistance, Guaranteed Student Loans, and certain health programs -- is calculated, and subtracted entirely from the non-defense side of the budget. It is estimated that in fiscal 1986, $45 million in savings would be obtained by eliminating the automatic spending increases for vocational rehabilitation grants, the National Wool Act, and the special milk program. The outlay savings for programs where the reductions are limited by special rules are estimated to be $397 million: $300 million for Medicare; $9.6 million for Guaranteed Student Loans; $5.1 million for foster care and adoption assistance; and $82.6 million for other health programs.

- The amount of the remaining required savings is determined, and used to calculate the uniform, across-the-board percentages by which all remaining non-exempt spending is to be reduced. These uniform reduction percentages are calculated separately for defense and non-defense spending, and are applied, within each of these categories, at the level of individual "programs, projects and activities." They are computed from outlay estimates, and are calculated by dividing the amount of the remaining savings needed in each category by the estimated "new" outlays expected to result from the sequesterable budgetary resources left in each category. Except for some limited flexibility in the area of defense, the president has no discretion in how these uniform reductions are determined.

In keeping with normal budgetary procedures, these percentage reductions in spending are not made directly in outlays. Rather, they are applied within each spending category to all new budget authority and other budgetary resources, such as loans, loan guarantees, and obligation limitations. This procedure is necessary because outlays cannot be cut without first cutting budget authority; and it is based on the assumption that, for all "programs, projects and activities," a 5 percent cut in "new" outlays would result in a 5 percent cut in new budget authority. The following table shows, for fiscal 1986, how these uniform reduction percentages were calculated by OMB, CBO, and finally GAO in its January 21 sequestration report to the president.

## Calculation of Automatic Spending Cuts
(in millions of dollars)

| Category | OMB Estimates | CBO Estimates | Average | GAO Estimates |
|---|---|---|---|---|
| **Excess Deficit** | 11,700 | 11,700 | 11,700 | 11,700 |
| **Defense Programs** | | | | |
| Total Required Reductions Under Sequestration | 5,850 | 5,850 | 5,850 | 5,850 |
| Savings from Retirement COLAs | 496 | 497 | 497 | 497 |
| Remaining Reductions Required | 5,354 | 5,353 | 5,353 | 5,353 |
| Outlays Subject to Across-the-Board Reductions | 106,225 | 112,446 | 109,335 | 110,300 |
| Uniform Reduction Percentage | 5.0 | 4.8 | 4.9 | 4.9 |
| **Non-Defense Programs** | | | | |
| Total Required Reductions Under Sequestration | 5,850 | 5,850 | 5,850 | 5,850 |
| Savings from Retirement COLAs | 496 | 497 | 497 | 497 |
| Savings from Other Indexed Programs | 45 | 45 | 45 | 45 |
| Savings from Programs Under Other Special Rules | 397 | 398 | 398 | 397 |
| Remaining Reductions Required | 4,912 | 4,911 | 4,912 | 4,912 |
| Outlays Subject to Across-the-Board Reductions | 114,444 | 115,080 | 114,762 | 115,200 |
| Uniform Reduction Percentage | 4.3 | 4.3 | 4.3 | 4.3 |

### Possible Fiscal 1987 Sequestration Order

For fiscal 1987, the president has proposed a budget that meets the Gramm-Rudman-Hollings deficit target of $144 million on the basis of his estimates and assumptions. He has proposed cuts of $38.2 billion from OMB's baseline, resulting in a deficit of $143.6 billion.

Nevertheless, if Congress and the president are unable to agree on a fiscal 1987 budget, but instead simply allow spending and revenues to continue at baseline levels, then the Gramm-Rudman-Hollings law would result in automatic sequestration of $38.8 billion to reach the deficit target of $144 billion, given OMB estimates. Below are some preliminary calculations prepared by the staff of the House Budget committee showing what such a fiscal 1987 sequestration order might look like:

- COLAs for federal civil service, military, and similar retirees would be frozen, for a saving of $1.1 billion;
- Medicare and other "special rule" programs would be cut by 2 percent, for a saving of about $1.6 billion;

- Defense budget authority and unobligated balances would be reduced by 10 percent, producing an outlay saving of $18.4 billion;
- Nondefense programs (other than exempt and "special rule" programs) would be cut by almost 15 percent, for an outlay saving of $16.7 billion.

## Changes in the Congressional Budget Process

The least examined aspect of Gramm-Rudman-Hollings is its many important changes in the congressional budget procedures that take place prior to sequestration. Most of these changes originally were recommended in 1984 by a special House Rules Committee task force on the budget process, but never were debated by the full House.

As the Rules Committee task force advised, Gramm-Rudman-Hollings adopts many changes in the budget process that Congress has accepted informally over the past few years. The most important of these eliminates the requirement that Congress pass a second budget resolution in September -- which it has not done since 1980, in any case -- and formally includes reconciliation in the budget resolution that Congress passes early each year. Since 1980, Congress has included reconciliation in the first budget resolution, but without any formal authority.

As the schedule at the end of this chapter shows, Gramm-Rudman-Hollings accelerates the deadline for submission of the president's annual budget proposal to Congress. Under previous law, the president was required to submit his budget 15 days after Congress convened in January. Under the new law, the president is required to submit his budget for the next fiscal year no later than the first Monday after January 3 of each year. For the fiscal 1987 budget, a special deadline of February 5 was established.

The new budget process also makes Congress act more quickly by moving up from April 1 to February 15 the date by which CBO must issue to the budget committees its report on the president's proposal. It also changes from March 15 to February 25 the date by which each committee must submit its "Views and Estimates" -- its recommendations -- to the budget committees, covering all spending, credit, and revenue-raising activities within its jurisdiction.

In addition, the legislation seeks a new deadline of April 15 for final passage of the budget resolution. Under the 1974 law, the comparable date was May 15. By June 15, Congress must pass in final form any reconciliations resulting from instructions included in the budget resolution.

Gramm-Rudman-Hollings also includes several provisions designed to expedite action on authorization and appropriation bills. First, while the law continues the general prohibition against consideration of spending measures in the House or Senate prior to adoption of a budget resolution, it repeals the May 15 deadline for standing committees to report authorizations containing new budget authority, and provides a new exemption that allows regular appropriation bills to be considered on the House floor after May 15, regardless of whether action has been completed on the budget resolution.

Second, the legislation establishes a new deadline of June 10 for the House Appropriations Committee to report all of its 13 regular appropriations bills, and a new deadline of June 30 for completion of House action on all 13. Under the previous budget act, Congress was supposed to have enacted all of its spending bills within seven calendar days after Labor Day. Finally, Gramm-Rudman-Hollings provides that it shall not be in order for the House to adjourn for the July 4 recess unless it has finished all of its regular appropriations bills for the coming fiscal year.

The chart on the next two pages outlines the new congressional budget timetable for fiscal 1986 and 1987.

## New Congressional Budget Process Timetable: Fiscal 1986 and 1987

| Action to be Completed | Gramm-Rudman-Hollings | Prior Law |
|---|---|---|
| "Snapshot" of fiscal 1986 deficit taken by CBO and OMB | January 10 | No provision |
| CBO and OMB issue report to GAO on fiscal 1986 deficit and sequestration order making automatic spending cuts to achieve deficit targets | January 15 | No provision |
| GAO issues fiscal 1986 deficit and sequestration report to president | January 21 | No provision |
| President issues fiscal 1986 sequestration order based on GAO report | February 1 | No provision |
| President submits fiscal 1987 budget to Congress | February 5* | 15 days after Congress reconvenes |
| CBO submits report on fiscal policy to budget committees | February 15 | April 1 |
| Congressional committees submit "Views and Estimates" to budget committees | February 25 | March 15 |
| Final sequestration order for fiscal 1987 takes effect | March 1 | No provision |
| Senate Budget Committee reports budget resolution | April 1 | April 15 |
| Congress completes action on budget resolution | April 15 | May 15 |
| Annual appropriation bills may be considered in the House | May 15 | May 15 |
| Congressional committees report new authorizing legislation for fiscal 1987 | No provision | May 15 |
| House Appropriations Committee reports all appropriations bills | June 10 | No provision |
| Congress completes action on reconciliation legislation | June 15 | No provision |
| House completes action on all appropriations bills | June 30 | No provision |

## New Congressional Budget Process Timetable: Fiscal 1986 and 1987
(continued)

| Action to be Completed | Gramm-Rudman-Hollings | Prior Law |
|---|---|---|
| "Snapshot" of fiscal 1987 deficit taken by CBO and OMB | August 15 | No provision |
| CBO and OMB issue report to GAO on fiscal 1987 deficit and initial sequestration order | August 20 | No provision |
| GAO issues fiscal 1987 deficit and sequestration report to president | August 25 | No provision |
| President issues initial fiscal 1987 sequestration order based on GAO report | September 1 | No provision |
| Congress completes action on all appropriations bills | No provision | 7 days after Labor Day |
| Congress completes action on second budget resolution | No provision | September 15 |
| Congress completes action on reconciliation legislation from second budget resolution | No provision | September 25 |
| Fiscal 1987 sequestration takes effect | October 1 | No provision |
| Fiscal year begins | October 1 | October 1 |
| CBO and OMB issue a revised report to GAO reflecting final congressional action | October 5 | No provision |
| GAO issues a revised report to president | October 10 | No provision |
| Final fiscal 1987 sequestration order based on revised report becomes effective | October 15 | No provision |
| GAO issues a compliance report on sequestration order | November 15 | No provision |

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*After 1987, the president's budget is due on the first Monday after January 3.

# IV. TAX OVERHAUL PROPOSALS

The president's fiscal 1987 budget proposal requests little in the way of tax code modification. In fact, the budget is based on current tax law in its estimate of revenues and expenditures. It does not assume enactment of the administration's tax reform plan or any alternative. It presumes that any tax code revision that may be adopted this fiscal year would be revenue neutral.

The most important tax suggestions in the budget proposal itself are measures to extend the partial credit for corporate research and development, provide IRA-style incentives for higher education, and offer tuition tax credits. These all have been proposed in prior budget messages. No reauthorization is proposed for energy conservation, renewable energy, or targeted jobs tax credits, or the employee education assistance provision, all of which expired at the end of 1985. The administration has suggested delaying any geographically targeted "enterprise zone" tax credit program until enactment of comprehensive tax overhaul legislation.

This chapter outlines briefly the tax overhaul efforts in the House and those happening and anticipated in the Senate. It features detailed analysis of three tax issues of particular concern to the region:

- Continuing deductibility for state and local non-business taxes;
- Maintaining investment incentives for rehabilitation of older and historic structures; and
- Reinstituting a level playing field for energy taxes.

Finally, tax-exempt finance and capital formation issues that have an impact on business and economic development are examined, and options now under consideration for raising revenue through new energy taxes are evaluated.

## A. Tax Overhaul Efforts

Tax reform occupied a prominent place on the legislative agenda during 1985. The House Ways and Means Committee drafted its bill after considerable discussion with administration officials. This bill, H.R. 3838, shares many of the goals of the president, such as reducing rates for businesses and individuals and removing special preferences. However, the committee included two provisions important to the region that the president had not recommended: deductibility for state and local non-business taxes, and rehabilitation tax credits. Even with these changes sought by regional leaders, the views of business and labor leaders on the relative impact on the region of various tax proposals are many and varied. Though some support the House-passed bill, others have argued that it would weaken the ability of American manufacturers to compete in world markets. The chart on the following pages provides some comparisons of existing tax code provisions with those of H.R. 3838 and the administration's proposal.

## Selected Features of Tax Overhaul Plans

| A. RATES/ADJUSTMENTS | Current Law | House-Passed Bill (H.R. 3838) | Administration Plan |
|---|---|---|---|
| Individual Tax Rates | 14 brackets<br>ranging from 11 to 50 percent, indexed | 4 brackets<br>15, 25, 35, and 38 percent, indexed | 3 brackets<br>15, 25, and 35 percent, indexed |
| Personal Exemption | $1,040, indexed | $2,000, non-itemizers; $1,500, itemizers, indexed | $2,000, indexed |
| Standard Deductions | | | |
| o Single | $2,480 | $2,950 | $2,900 |
| o Joint | $3,670 | $4,800 | $4,000 |
| o Head of Household | $2,480 | $4,200 | $3,600 |
| Corporate Tax Rates | 15 to 40 percent for first $100,000; 46 percent thereafter | 15 to 25 percent for first $75,000; 36 percent thereafter | 15 to 25 percent for first $75,000; 33 percent thereafter |
| Dividends to Shareholders | No adjustment | 10 percent deductible; phased in over ten years | 10 percent deductible |
| Employee Benefits | | | |
| o Health Insurance | Not taxed | Not taxed | $120 individual, $300 family taxed |
| o Term Life Insurance | Not taxed to $50,000 coverage | Not taxed to $50,000 coverage | Not taxed to $50,000 coverage |
| o Workers Compensation | Not taxed | Not taxed | Taxed |
| o Unemployment Compensation | Partially taxed | Taxed | Taxed |
| o Employee Education Assistance | Not taxed (provision expired 12/85) | Not taxed and extended two years | Taxed (provision expired 12/85) |
| Earned Income Tax Credit | 11 percent ($550 maximim) | 14 percent ($700 maximim), indexed | 14 percent ($700 maximum), indexed |
| Two Earner Deduction | Permitted ($300 maximum) | Repealed | Repealed |
| Income Averaging | Permitted | Repealed | Repealed |
| Retirement Savings | | | |
| o IRA Limit | $2,000 | $2,000 | $2,000 |
| o Spouse IRA | $250 | $250 | $2,000 |
| o 401 (K) Plans | $30,000 annual combined deferred limit | $7,000 annual limit on employee deferrals; $25,000 combined limit; contributions offset IRA contributions dollar for dollar | Repealed |
| Minimum Tax | 20 percent for corporations; 15 percent for individuals | 25 percent for both corporations and individuals | 20 percent for both corporations and individuals |

## Selected Features of Tax Overhaul Plans
(continued)

| | Current Law | House-Passed Bill (H.R. 3838) | Administration Plan |
|---|---|---|---|
| **B. PERSONAL DEDUCTIONS** | | | |
| State/Local Real Estate Tax | Permitted | Permitted | Repealed |
| State/Local Income Tax | Permitted | Permitted | Repealed |
| State/Local Sales Tax | Permitted | Permitted | Repealed |
| State/Local Personal Property Tax | Permitted | Permitted | Repealed |
| Mortgage Interest | Permitted | Permitted | Permitted only for principal residence |
| Other Non-Business Interest | Personal interest deductible; investment interest limited to $10,000 over investment income | Limited to $10,000 for individuals, and $20,000 for joint filers plus net investment income | Limited to $5,000 over investment income (with expanded definition) |
| Charitable Contributions | Deductible for itemizers and non-itemizers | Deductible for itemizers; non-itemizers can deduct contributions in excess of $100 | Deductible for itemizers |
| **C. ECONOMIC DEVELOPMENT PROVISIONS** | | | |
| Rehabilitation and Historic Tax Credit | 15, 20, and 25 percent | Modified; 10 and 20 percent | Repealed |
| Government Bonds for Public Facilities | Interest not taxed | 10 percent test or $10 million | 1 percent test |
| Nongovernmental Bonds<br>o Small Issue IDBs | Tax-exempt; scheduled to expire 12/86 except for manufacturing | Tax-exempt; volume limit | Taxed |
| o "Nonessential Functions" | Tax-exempt; some under volume limit | Tax-exempt; volume limit | Taxed |
| o Industrial Parks | Tax-exempt; volume limit | Taxed | Taxed |
| o Pollution Control | Tax-exempt | Taxed | Taxed |
| Investment Tax Credit | 6-10 percent | Repealed | Repealed |
| Depreciation | Accelerated Cost Recovery System (ACRS), 4 asset classes, with accelerated write-offs of 3-19 years | Incentive Depreciation System (IDS), 10 asset classes, with less generous write-offs of 3-30 years; partially indexed | Capital Cost Recovery System (CCRS), 6 asset classes, with generous write-offs of 4-28 years; value adjusted for inflation |
| Recapture of Excess Depreciation | No | No | Yes |
| Capital Gains | 60 percent exclusion, not indexed; top effective rate of 20 percent | 42 percent exclusion, partially indexed; top effective rate of 22 percent | 50 percent exclusion, indexed; top effective individual rate of 17.5 percent |

## Selected Features of Tax Overhaul Plans
(continued)

| | Current Law | House-Passed Bill (H.R. 3838) | Administration Plan |
|---|---|---|---|
| Research and Development Credit | 25 percent credit (provision expired 12/85) | Modified; 20 percent credit, tightened definition | 25 percent credit extended for 3 years, tightened definition |
| Targeted Jobs Tax Credit | Permitted (provision expired 12/85) | Modified; extended for two years | Repealed (provision expired 12/85) |
| **D. ENERGY PROVISIONS** | | | |
| Energy Conservation (Residential) | 15 percent, $300 maximum; provision expired 12/85 | Repealed (provision expired 12/85) | Repealed (provision expired 12/85) |
| Renewable Energy Tax Credit | 11-40 percent depending on technology; provision expireed 12/85 | Modified; phase-out over 3 years for solar and geothermal; repealed for other technologies | Repealed (provision expired 12/85) |
| Intangible Oil and Gas Drilling Costs (IDCs) | Expensing permitted | Expensing for costs prior to installation of production easing | Expensing permitted |
| Percentage Depletion Allowance | Permitted; schedule depends on resource | Phased-out over 3 years; retained for certain oil and gas stripper wells | Phased-out over 5 years; retained for oil and gas stripper wells |
| Power Generation Cost Recovery | ACRS:<br>Cogeneration/<br>Renewables = 5 years;<br>Nuclear = 10 years;<br>Fossil = 15 years | IDS:<br>Cogeneration/<br>Renewables = period varies<br>Nuclear = 20 years<br>Fossil = 25 years | CCRS:<br>Cogeneration/<br>Renewables = 10 years;<br>Nuclear = 10 years;<br>Fossil = 10 years |

The House passed H.R. 3838 in December 1985. The Senate Finance Committee began holding hearings on various tax issues early in 1986, and made it clear that it would not use either the House-passed bill or the administration proposal (known as Treasury II) as the basis for its work. The committee has begun to draft its own package of tax provisions. Its aim is to gain the support of a majority of committee members on major policy options before proceeding to formal bill-writing and mark-up.

The bill passed by the House transfers approximately $140 billion in taxes from individuals to business over five years by cutting rates for individuals and curtailing corporate tax preferences. Strong sentiment exists on the Finance Committee that the Senate's tax bill should provide greater incentives for business investment. Its draft likely will include a more generous depreciation schedule and greater capital gains preferences than provided in the House bill. Oil and gas interests are strongly seeking further incentives for development for their industries.

Committee members are thought to have agreed that the maximum tax rate for individuals should be 35 percent, down from the top rate of 38 percent in the House bill. They also seem to favor raising the personal exemption for low- and middle income taxpayers from its current level of $1,040 to $2,000.

The Finance Committee will consider several options to raise the estimated $100 billion to $130 billion in revenue that will be necessary to maintain the level of business tax benefits and lower the corporate and individual tax rates favored by a number of senators and the administration. The committee may consider at least partial repeal of the current deduction for non-business state and local taxes. While little support exists for eliminating the deduction for real property or income taxes, some senators have discussed repealing it for sales taxes and personal property taxes. The draft bill also may include proposals curbing tax advantages for fringe benefits or limiting deductions for interest paid by businesses and consumers for loans other than home mortgages.

The Finance Committee anticipates that formal bill-writing will commence in March, with a completion date in May, at the soonest. Once an overhaul measure is reported, lengthy deliberations on the Senate floor are almost a certainty. Should tax reform legislation emerge from the Senate, protracted House-Senate conference committee sessions can be expected.

Various incentives will be considered during Senate deliberation on tax reform; some expenditures already have been proposed for modification in the House-passed bill. The table on the following page shows the "outlay equivalent" of various tax incentives. The dollar figures represent the amounts required to achieve the same goal through a direct spending program. Outlay estimates should not be added together for an aggregate total, because many of them are related and the combined effect may differ from a simple total.

## Estimates of the Outlay Equivalent for Selected Tax Incentives
(in millions of dollars)

| Tax Incentive | 1985 | 1986 | 1987 |
|---|---|---|---|
| Investment Credit for Rehabilitation of Non-historic Structures | 345 | 365 | 410 |
| Tax Incentives for Preservation of Historic Structures | 430 | 550 | 715 |
| Credit for Increasing Research Activities | 2,430 | 1,245 | 525 |
| Expensing of Research and Development Expenditures | 3,730 | 2,925 | 2,860 |
| Exclusion of Interest on IDBs for: | | | |
| Pollution control and sewage and waste disposal facilities | 1,185 | 1,405 | 1,640 |
| Certain energy facilities | 130 | 140 | 155 |
| Airports, docks, and sports and convention facilities | 480 | 585 | 695 |
| Small issue projects | 1,880 | 2,155 | 2,295 |
| Exclusion of Interest on Public Purpose State and Local Debt | 7,430 | 8,295 | 9,160 |
| Alternative Energy and Energy Conservation Credits: | | | |
| Supply incentives | 680 | 310 | 100 |
| Conservation incentives | 295 | 70 | 0 |
| Safe Harbor Leasing Rules | 2,640 | 2,245 | 1,850 |
| Accelerated Depreciation of Buildings (non-rental housing) | 8,555 | 9,720 | 10,525 |
| Accelerated Depreciation of Machinery and Equipment | 21,460 | 22,940 | 24,215 |
| Investment Tax Credit (other than ESOPs, rehabilitation, and reforestation expenditures) | 32,840 | 34,780 | 38,430 |
| Investment Credit for ESOPs | 3,035 | 3,660 | 4,025 |
| Targeted Jobs Tax Credit | 485 | 420 | 65 |

SOURCE: Budget of the United States Government, Fiscal Year 1987, "Special Analysis G."

## B. State and Local Tax Deductibility

The current federal deduction for non-business state and local taxes is the oldest deduction in the federal tax system. It originally was allowed in an emergency national income tax in 1864, and later was incorporated into the federal code when the individual income tax was formalized in 1913. Deductibility was taken for granted then as an essential and integral part of our federal system of government, so that the federal government would not engage in "double taxation" -- taxing individuals on income already paid as taxes to state and local governments.

### Administration Proposal

Repeal of this deduction for non-business state and local taxes has emerged as one of the most controversial features of the administration's tax reform plan. A key premise of the administration's argument is the notion that state and local tax liabilities should be included in the federal tax base. The administration maintains that state and local taxes are payments made by residents in exchange for public goods and services. For most benefits, they claim, the level of taxation "is analogous to their [taxpayer's] decisions over how much to spend for the purchase of private goods" and therefore should not be allowed to reduce the federal tax base. This analogy, however, ignores the role deductibility has played in fiscal coordination between the various levels of government, and the fact that many taxes are redistributive in nature, providing services to elderly and low- and moderate income individuals. It also is inconsistent with other administration proposals to maintain deductions for home mortgage interest or charitable contributions and the foreign tax credit, which allows American citizens and U.S. corporations in foreign countries to get not just a deduction but a full credit on taxes they pay to other nations.

### House Bill

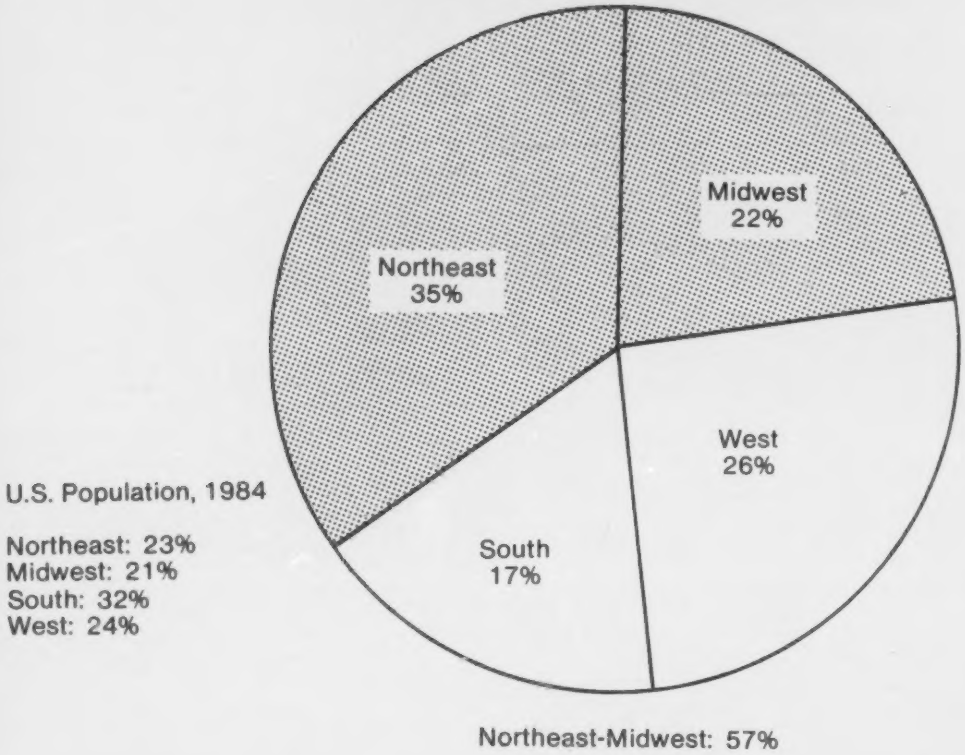
The House Ways and Means Committee considered and rejected the proposal to repeal state and local non-business tax deductibility. H.R. 3838 would continue the provisions of existing law.

### Regional Implications

Repealing state and local tax deductibility would affect large numbers of taxpayers in every state, and would hit middle income taxpayers the hardest. As the chart on the next page illustrates, repeal would have a disproportionate impact on the taxpayers and states of the Northeast and Midwest. Estimates show that the region, with 44 percent of the nation's population, would have to pay 57 percent of the projected $34 billion in additional federal revenue resulting from elimination of the deduction for non-business state and local taxes.

Some have claimed this disparity results almost wholly from higher tax rates in Northeastern and Midwestern states. This premise is both too simplistic and inaccurate. States in the Northeast and Midwest -- all of which are net energy importers -- rely on personal income, sales, and property taxes

## Value of Federal Deductibility of State and Local Taxes



for their revenues. Indeed, the last column of the table on the next page shows that states and local governments in the Northeast and Midwest derive the greatest proportion of their tax revenues from the personal income, sales and property taxes that would be affected by the administration's proposal.

Energy-producing states, on the other hand, have maintained lower personal tax rates by imposing severance taxes on oil, gas, and coal. In 1983, for instance, eight states considered to be low-tax states for purposes of deductibility -- Alaska, Wyoming, North Dakota, New Mexico, Oklahoma, Louisiana, Montana, and Texas -- collected $6.5 billion from state severance taxes. This was more than 25 percent of their total tax revenues.

More importantly, under the administration's plan, these energy severance levies -- even though they ultimately are paid by consumers in all regions -- would be considered business taxes and would remain deductible. This aspect increases the unequal regional impact of the proposal. The inequity can best be seen if one looks at how repeal of deductibility would affect Wyoming and Alaska. These states would be the two least affected by repeal, even though they are the two highest taxed states in the country. Alaska's per capita state and local taxes were $4,908 in 1983 and Wyoming's were $2,443, compared with a national per capita average of $1,214. This is because they derive a substantial amount of their revenues from energy severance taxes, which would remain deductible as business expenses.

# Value of Federal Deduction for Non-Business State and Local Taxes: 1982[1]

| Region and State | Total (in millions of dollars) | Per Itemized Return |  | Percent of Taxpaying Individuals Who Itemize | Deductible Non-Business Taxes as Percent of State-Local Taxes |
|---|---|---|---|---|---|
|  |  | Dollars | Rank |  |  |
| **New England** |  |  |  |  |  |
| Connecticut | 422.95 | 853 | 13 | 54.5 | 51.99 |
| Maine | 78.91 | 950 | 6 | 44.7 | 63.48 |
| Massachusetts | 894.12 | 1,018 | 3 | 55.4 | 69.95 |
| New Hampshire | 64.13 | 707 | 21 | 44.4 | 48.00 |
| Rhode Island | 110.99 | 857 | 12 | 45.8 | 63.14 |
| Vermont | 39.42 | 539 | 33 | 38.2 | 55.13 |
| **Mid-Atlantic** |  |  |  |  |  |
| Delaware | 97.40 | 912 | 9 | 55.0 | 52.97 |
| Maryland | 791.37 | 933 | 7 | 62.8 | 66.67 |
| New Jersey | 1,241.35 | 1,012 | 4 | 57.7 | 56.16 |
| New York | 4,088.79 | 1,292 | 1 | 59.7 | 64.75 |
| Pennsylvania | 986.32 | 725 | 17 | 47.7 | 57.62 |
| **Midwest** |  |  |  |  |  |
| Illinois | 1,154.22 | 720 | 19 | 54.4 | 55.36 |
| Indiana | 278.54 | 452 | 39 | 40.2 | 58.31 |
| Iowa | 218.73 | 569 | 27 | 49.9 | 62.39 |
| Michigan | 1,309.57 | 908 | 10 | 60.9 | 62.68 |
| Minnesota | 621.25 | 872 | 11 | 57.5 | 61.22 |
| Ohio | 885.21 | 715 | 20 | 46.5 | 57.07 |
| Wisconsin | 651.26 | 914 | 8 | 55.3 | 66.30 |
| **South** |  |  |  |  |  |
| Alabama | 195.50 | 442 | 40 | 48.5 | 46.96 |
| Arkansas | 114.08 | 483 | 36 | 34.7 | 53.21 |
| D.C. | 123.83 | 1,166 | 2 | 53.8 | 66.32 |
| Florida | 527.92 | 438 | 41 | 40.7 | 47.83 |
| Georgia | 490.13 | 751 | 16 | 47.7 | 61.98 |
| Kentucky | 240.35 | 544 | 32 | 44.2 | 55.34 |
| Louisiana | 134.29 | 334 | 47 | 38.3 | 36.20 |
| Mississippi | 101.48 | 495 | 35 | 54.9 | 49.47 |
| North Carolina | 464.26 | 706 | 22 | 32.4 | 59.17 |
| Oklahoma | 271.04 | 590 | 25 | 43.5 | 44.87 |
| South Carolina | 234.99 | 632 | 23 | 48.3 | 59.56 |
| Tennessee | 153.05 | 399 | 45 | 40.5 | 47.03 |
| Texas | 661.29 | 404 | 44 | 42.4 | 37.79 |
| Virginia | 620.14 | 801 | 14 | 55.1 | 60.80 |
| West Virginia | 66.07 | 562 | 29 | 26.6 | 36.28 |

## Value of Federal Deduction for Non-Business State and Local Taxes: 1982[1]

(continued)

| Region and State | Total (in millions of dollars) | Per Itemized Return | | Percentage of Taxpaying Individuals Who Itemize | Deductible Non-Business Taxes as Percent of State-Local Taxes |
|---|---|---|---|---|---|
| | | Dollars | Rank | | |
| **West** | | | | | |
| Alaska | 20.17 | 296 | 49 | 60.0 | 2.87 |
| Arizona | 219.63 | 473 | 37 | 60.3 | 58.91 |
| California | 3,837.62 | 971 | 5 | 57.2 | 61.75 |
| Colorado | 338.49 | 558 | 30 | 62.2 | 58.71 |
| Hawaii | 116.30 | 762 | 15 | 56.9 | 64.34 |
| Idaho | 62.75 | 545 | 31 | 52.2 | 58.06 |
| Kansas | 192.53 | 566 | 28 | 50.7 | 56.94 |
| Missouri | 345.08 | 535 | 34 | 44.1 | 59.23 |
| Montana | 33.40 | 461 | 38 | 45.5 | 40.65 |
| Nebraska | 138.36 | 592 | 24 | 42.9 | 63.66 |
| Nevada | 49.57 | 349 | 46 | 57.0 | 38.80 |
| New Mexico | 52.02 | 322 | 48 | 41.6 | 37.14 |
| North Dakota | 27.68 | 422 | 42 | 39.0 | 40.97 |
| Oregon | 311.28 | 725 | 18 | 57.3 | 59.87 |
| South Dakota | 14.31 | 289 | 50 | 34.2 | 56.91 |
| Utah | 142.79 | 572 | 26 | 64.9 | 61.14 |
| Washington | 270.50 | 422 | 43 | 55.1 | 46.76 |
| Wyoming | 17.22 | 257 | 51 | 45.6 | 25.96 |
| **U.S. Total or Average** | 24,511.84 | 770 | -- | 51.1 | 56.53 |

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[1] Table assumes no offsetting tax rate reductions and no change in state-local tax structures.

SOURCES: Staff calculations from U.S. Department of the Treasury, Office of Tax Analysis, "Tabulations from the 1982 Statistics of Income File for Fiscal Relations Study," tables 2 and 5, December 14, 1984; Internal Revenue Service, Statistics of Income--1982, Individual Tax Returns (Washington, D.C., October 1984); Coalition Against Double Taxation, "A State By State Analysis of the Percentage of Taxpayers Who Itemize on Their Federal Returns," Washington, D.C., August 1985.

### Fairness and Federalism: Why Deductibility Should be Maintained

State and local tax deductibility has been a cornerstone of fiscal federalism in this country since the inception of the federal income tax. The administration's proposed modification would represent a significant change in the nature of intergovernmental fiscal relationships. It would magnify the variations in state/local fiscal capacity. In many communities, it could result in financial pressures that would reduce available services and diminish prospects for economic health. It would make it difficult for states and localities in the Northeast and Midwest to gain revenue at a time when federal program responsibilities are being turned over to them.

The administration maintains that the existing deduction is unfair because it disproportionately benefits high income individuals residing in high tax states. In fact, repeal would hit middle income taxpayers hardest. Over half the households that utilize the state and local deduction have incomes below $30,000, and 87 percent have incomes below $50,000.

Furthermore, more taxpayers claim the state and local deduction than any other deduction, including the home mortgage interest deduction. In 1982, 33 million filers took the state and local deduction; 24.5 million -- 25 percent fewer -- took the home mortgage deduction. Households deducting state and local taxes are distributed nearly evenly around the country, and are not concentrated in just a few high-tax states.

The extent to which the repeal of deductibility would cut across income levels is clarified when the value of the deduction is compared to adjusted gross income. (See the table on the following page.) In 32 states, the value of deductibility as a percentage of adjusted gross incomes over $100,000 was less than the state average; in 12 other states, the value was less than one percent higher. In contrast, in 18 states the value of deductibility to taxpayers in the lowest reported adjusted gross income class ($22,000-$30,000) exceeded the state average.

Some advocates of repeal argue that the deduction is unnecessary because it is claimed on only one-third of all returns. However, this figure is derived by counting joint returns as one taxpayer. When joint returns are counted properly as two taxpayers, the proportion of taxpaying individuals who itemize and deduct state and local taxes rises to 51 percent nationally. In six states -- located in all sections of the country -- this level exceeds 60 percent.

The fairness issue cuts more than one way, though. Numerous states traditionally contribute more in taxes to the federal government than they receive back in spending. Many of these states would see their balance of payments deteriorate even further if deductibility of state and local nonbusiness taxes were eliminated. In fact, six of the ten states with the highest state and local deductions per itemized return receive less than 92 cents back in federal spending for each dollar they send to Washington. Conversely, three of the eight states already noted as low-tax states with respect to deductibility receive more than $1.10 back per dollar. In short, those state and local governments that already fund a greater proportion of their services from their own coffers -- and receive less from the federal government in a range of assistance -- would suffer the most adverse effects from the loss of deductibility. It is inaccurate to say that these states are being subsidized by others.

## State-Local Tax Deduction as Percent of Adjusted Gross Income (AGI): 1980

| Region and State | Average | Adjusted Gross Income Class<br>$22,000 to $30,000 | $30,000 to $40,000 | $40,000 to $50,000 | over $100,000 |
|---|---|---|---|---|---|
| **New England** | | | | | |
| Connecticut | 6.74 | 6.47 | 6.21 | 6.16 | 6.35 |
| Maine | 8.12 | 7.02 | 8.15 | 8.00 | 9.76 |
| Massachusetts | 10.82 | 10.97 | 9.98 | 10.51 | 9.95 |
| New Hampshire | 6.00 | 5.99 | 5.92 | 6.08 | 4.16 |
| Rhode Island | 9.16 | 8.80 | 8.60 | 8.60 | 9.92 |
| Vermont | 8.84 | 9.29 | 8.21 | 8.40 | 9.59 |
| **Mid-Atlantic** | | | | | |
| Delaware | 8.22 | 7.50 | 7.18 | 7.99 | 11.73 |
| Maryland | 9.53 | 9.81 | 9.47 | 9.24 | 8.91 |
| New Jersey | 8.14 | 8.08 | 8.04 | 7.68 | 6.79 |
| New York | 12.45 | 11.73 | 11.68 | 12.23 | 14.26 |
| Pennsylvania | 7.43 | 7.78 | 7.38 | 7.05 | 5.40 |
| **Midwest** | | | | | |
| Illinois | 6.52 | 6.82 | 6.43 | 6.20 | 4.95 |
| Indiana | 4.80 | 4.94 | 4.87 | 4.45 | 3.35 |
| Iowa | 7.00 | 6.71 | 6.65 | 6.69 | 7.38 |
| Michigan | 9.08 | 9.29 | 8.97 | 8.85 | 7.54 |
| Minnesota | 9.56 | 8.78 | 9.33 | 9.66 | 10.12 |
| Ohio | 5.93 | 5.67 | 5.70 | 5.94 | 5.71 |
| Wisconsin | 10.42 | 10.35 | 10.30 | 10.44 | 11.03 |
| **South** | | | | | |
| Alabama | 5.36 | 5.43 | 5.33 | 5.12 | 4.88 |
| Arkansas | 5.87 | 5.16 | 5.83 | 5.69 | 7.26 |
| District of Columbia | 9.48 | 9.18 | 9.31 | 9.18 | 9.95 |
| Florida | 3.57 | 3.08 | 3.44 | 3.89 | 3.01 |
| Georgia | 6.58 | 6.30 | 6.60 | 6.96 | 6.77 |
| Kentucky | 6.74 | 6.70 | 6.91 | 7.03 | 5.13 |
| Louisiana | 3.01 | 2.88 | 3.04 | 2.89 | 2.39 |
| Mississippi | 5.09 | 5.04 | 5.07 | 4.73 | 5.03 |
| North Carolina | 7.44 | 6.99 | 7.21 | 7.76 | 8.18 |
| Oklahoma | 5.21 | 4.86 | 5.31 | 5.07 | 5.05 |
| South Carolina | 6.97 | 6.45 | 6.90 | 7.52 | 7.39 |
| Tennessee | 3.61 | 3.69 | 3.57 | 3.53 | 2.52 |
| Texas | 3.13 | 3.35 | 3.35 | 3.35 | 1.81 |
| Virginia | 7.51 | 7.76 | 6.97 | 7.84 | 6.78 |
| West Virginia | 4.96 | 4.87 | 4.53 | 4.82 | 6.16 |

### State-Local Tax Deduction as Percent of Adjusted Gross Income (AGI): 1980
(continued)

| | Adjusted Gross Income Class | | | | |
|---|---|---|---|---|---|
| Region and State | Average | $22,000 to $30,000 | $30,000 to $40,000 | $40,000 to $50,000 | over $100,000 |
| **West** | | | | | |
| Alaska | 3.88 | 4.47 | 3.93 | 3.62 | 3.08 |
| Arizona | 6.18 | 6.16 | 5.97 | 6.06 | 4.97 |
| California | 8.59 | 7.73 | 7.63 | 8.25 | 11.29 |
| Colorado | 6.99 | 7.02 | 7.24 | 7.19 | 5.13 |
| Hawaii | 8.74 | 8.30 | 8.33 | 8.58 | 9.47 |
| Idaho | 7.28 | 6.87 | 7.12 | 7.51 | 7.07 |
| Kansas | 5.99 | 6.22 | 5.77 | 5.74 | 5.06 |
| Missouri | 5.76 | 5.52 | 5.75 | 6.25 | 4.33 |
| Montana | 6.34 | 5.97 | 6.66 | 5.88 | 6.04 |
| Nebraska | 7.49 | 7.14 | 7.21 | 7.81 | 8.18 |
| Nevada | 3.39 | 3.23 | 3.47 | 2.80 | 2.37 |
| New Mexico | 5.14 | 4.44 | 5.08 | 5.14 | 6.00 |
| North Dakota | 4.74 | 4.58 | 4.90 | 4.89 | 3.64 |
| Oregon | 8.53 | 8.14 | 8.43 | 8.42 | 9.56 |
| South Dakota | 5.04 | 5.62 | 4.19 | 4.34 | 2.28 |
| Utah | 7.63 | 7.67 | 7.64 | 7.59 | 5.26 |
| Washington | 3.89 | 4.21 | 4.01 | 5.26 | 2.44 |
| Wyoming | 2.65 | 2.99 | 2.59 | 2.74 | 1.31 |
| **U.S. Average** | 7.50 | 7.40 | 7.22 | 7.37 | 7.25 |

SOURCE: Staff calculations from Congressional Research Service Data File, based on unpublished 1980 Income Tax Data.

Repeal of deductibility also could cause fiscal problems in many jurisdictions, limiting the ability of state and local governments to raise revenues and provide services to their citizens. Federal spending for many social service programs has been reduced by more than 40 percent over the last five years. Small and rural communities, with limited revenue-raising options, could be greatly affected. New funding for education, which now totals over one-third of the expenditures of state and local governments, could be discouraged at a time when improving educational quality and facilities has become a top national priority.

In conclusion, elimination of this provision would affect large numbers of taxpayers in every state, hitting middle income taxpayers the hardest. Such action would limit the ability of state and local governments to raise revenues, and have a disproportionate impact on the Northeast and Midwest.

## C. Rehabilitation Tax Credits

Congress devised rehabilitation tax credits to discourage unnecessary demolition of structurally sound older buildings and to stem the loss or relocation of existing industries and businesses from older downtown commercial areas. Prior to enactment of the credits, the depreciation provisions in the tax code made it more advantageous financially for companies to build anew rather than renovate and modernize older structures. As a result, many older but structurally sound properties were abandoned needlessly as firms moved to newer locations.

Rehabilitation tax credits first were included in the tax code in 1978. The Economic Recovery Tax Act (ERTA) of 1981 expanded the credit and made the rehabilitation and new development options more equal from a tax standpoint. ERTA established a three-tiered credit:

- 15 percent of rehabilitation expenditures for nonresidential properties at least 30 years old;
- 20 percent of rehabilitation expenditures for nonresidential properties at least 40 years old; and
- 25 percent for renovation costs of certified historic properties, includ-ing depreciable residential as well as commercial and industrial buildings.

These credits recognized older and historic buildings as a potentially valuable economic development resource whose renovation could help reverse neighborhood deterioration and spur economic growth.

### Administration Proposal

The administration proposed termination of the tax credits, and with stringent transition rules. It justified its proposed repeal by stating that in the absence of such incentives, the full amount of rehabilitation expenditures would be recovered through normal cost recovery rules. Treasury Department officials have maintained that the resulting effective tax rates for investment in older structures would be comparable to effective tax rates for other investments. The accuracy of this proposition has been challenged. In addition, the Treasury Department's analysis did not consider either the role of the rehabilitation development process or the economic gains it produces.

### House Bill

The tax reform bill that passed the House of Representatives includes a provision that preserves rehabilitation tax credits but scales them back. As passed, H.R. 3838 would continue the straight-line cost recovery requirement but replace the existing three tiers with two:

- A 20 percent credit and full basis adjustment for rehabilitation of certified historic structures; and
- A 10 percent credit for rehabilitation work on other structures built before 1936.

The House bill includes a January 1, 1986, effective date. It contains more generous transition provisions than the Treasury II proposal; generally, credits would be allowed (although at reduced levels ranging from 13 to 10 percent) for rehabilitation of 30- and 40-year-old buildings placed in service by December 31, 1987, if binding contracts for the renovation work were in place or 5 percent of eventual costs had been spent by September 25, 1985.

## Regional Implications

The rehabilitation credits have received wide use, particularly in the Northeast and Midwest. In the fiscal 1982-1984 period, over 3,400 historic rehabilitation projects were completed in the region. The $3.1 billion spent on these efforts represented approximately 55 percent of the national total. Among the states, Illinois, New York, Pennsylvania, and Massachusetts led in the amount of rehabilitation activity. Philadelphia (with $400 million in projects during fiscal 1982-1984), Chicago ($252 million), New York ($123 million), and Minneapolis ($72 million) were among the most active cities nationwide. Many of the region's smaller cities ranked in the top 50 nationally in terms of project activity, including Reading, Pennsylvania, and Fall River, Massachusetts ($13 million each), Grand Rapids, Michigan ($14 million), and Canton, Ohio ($22 million).

Use of the tax credits in the Northeast and Midwest is shown in the table on the following page. It describes the state-by-state benefits of the credit in recent years. Many of the tax benefits are claimed on smaller projects. The National Trust for Historic Preservation found that 53 percent of the structures claiming the 25 percent credit during the 1982-1984 period contained less than 10,000 square feet. Thanks to the credits, the economy is deriving benefits from many smaller and diverse business enterprises, and not just a few very large projects.

Commercial Projects. Renovation projects incorporating these credits have improved or added significant amounts of commercial space to state and local inventories. Mixed use renovations that include hotel or office space as well as purely commercial projects have added shops and retail space in many cities. For example, renovation projects brought into use 1.2 million square feet of space in Minnesota in 1983 and more than 1 million square feet in New Jersey in 1984. Iowa added nearly 500,000 square feet since 1983, much of it in smaller cities and towns.

Housing Projects. Housing renovation is the largest and most important rehabilitation activity in many cities and communities. In fiscal 1982-1984, Massachusetts led the nation with 4,009 units renovated, followed by Pennsylvania with 3,100 units and Illinois with 3,013 units. In fact, the region accounted for 61 percent of all such rehabilitation activity (23,912 units out of 38,959 units nationwide). More importantly, rehabilitation tax credits were directly responsible for the revitalization of many dilapidated housing units for low- and moderate-income persons.

Community Economic Benefits. The current tax incentives have sparked rehabilitation work in older neighborhoods and commercial districts, which in turn has created significant economic benefits in cities and states throughout the region. Recognizing this, officials in several cities and states have evaluated the diverse economic benefits attributable to federal rehabilitation tax credits.

## Historic (25 percent) Rehabilitation Tax Credit Activity: Fiscal 1982-1984

| Region and State | Expenditure (in millions of dollars)[1] | Percent of Total | Number of Projects | Percent of Total |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | 180.1 | 3.14 | 181 | 2.43 |
| Maine | 47.3 | 0.82 | 85 | 1.14 |
| Massachusetts | 324.5 | 5.66 | 354 | 4.76 |
| New Hampshire | 20.5 | 0.36 | 22 | 0.29 |
| Rhode Island | 63.9 | 1.12 | 164 | 2.21 |
| Vermont | 20.4 | 0.36 | 56 | 0.75 |
| Total | 656.7 | 11.45 | 862 | 11.58 |
| **Mid-Atlantic** | | | | |
| Delaware | 4.5 | 0.08 | 23 | 0.31 |
| Maryland | 110.3 | 1.92 | 346 | 4.65 |
| New Jersey | 236.6 | 4.13 | 222 | 2.98 |
| New York | 363.2 | 6.34 | 445 | 5.98 |
| Pennsylvania | 620.7 | 10.83 | 485 | 6.52 |
| Total | 1,335.3 | 23.30 | 1,521 | 20.44 |
| **Midwest** | | | | |
| Illinois | 425.1 | 7.42 | 169 | 2.28 |
| Indiana | 82.0 | 1.43 | 137 | 1.85 |
| Iowa | 32.5 | 0.57 | 51 | 0.69 |
| Michigan | 161.7 | 2.82 | 132 | 1.77 |
| Minnesota | 162.7 | 2.84 | 118 | 1.59 |
| Ohio | 253.0 | 4.41 | 373 | 5.01 |
| Wisconsin | 27.3 | 0.48 | 109 | 1.47 |
| Total | 1,144.3 | 19.97 | 1,089 | 14.66 |
| Missouri | 443.7 | 7.70 | 605 | 8.13 |
| Total with Missouri | 1,588.0 | 27.67 | 1,694 | 22.79 |
| **Northeast** | 1,992.0 | 34.80 | 2,383 | 32.00 |
| **Midwest*** | 1,144.3 | 20.00 | 1,089 | 14.70 |
| **Northeast and Midwest*** | 3,136.3 | 54.80 | 3,472 | 46.70 |
| **South** | 1,524.1 | 26.60 | 2,491 | 33.50 |
| **West** | 1,071.5 | 18.60 | 1,476 | 19.80 |
| **South and West** | 2,595.6 | 45.20 | 3,967 | 53.30 |
| **U.S. Total** | 5,731.9 | 100.00 | 7,439 | 100.00 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Figures may not add due to rounding.

SOURCE: Staff calculations from PRIME database, National Trust for Historic Preservation, Research Division, October 1985.

According to officials in Michigan, the tax incentives have had a major economic impact, generating more than $250 million in private investment since 1981; in Detroit, more than 10,000 jobs are attributed to tax credit projects. Iowa companies and individuals have spent $45 million on historic rehabilitation since 1978. This investment has led to 2,500 new jobs and a $55 million increase in total state income. In Portland, Maine, more than $66 million has been invested since 1976 in 156 buildings for which tax credits were claimed. These now generate $1.5 million annually in additional local property taxes.

In their assessment of the benefits of rehabilitation expenditures, Illinois officials focused on the amount of additional state and local tax revenue they generated. The 141 projects completed between 1982 and 1984 that claimed federal credits generated $8.7 million in personal income tax revenues, $320,000 in corporate income taxes, $14.3 million in state and $7.9 million in local sales taxes, and $24.4 million in property taxes.

### Rehabilitation Incentives Should Be Maintained

Rehabilitation tax credits have played an important role in attracting capital into ignored and often blighted areas not ordinarily conducive to investment. They also have provided incentives necessary to maintain existing investment, particularly in large and small cities throughout the Northeast and Midwest. Renovated buildings often serve as investment "magnets" for nearby areas; they can be pivotal in attracting unsubsidized development to downtown areas as well as reversing the decline of commercial areas and housing stock.

By eliminating the rehabilitation tax credits, the administration's proposal would negate efforts over the past decade to encourage rehabilitation, and could lead to renewed business relocations for tax purposes. It also would erode the equalizing effect put into place by ERTA and prior tax legislation. In short, the proposal would reintroduce a tax disincentive for reusing existing structures.

Critics who claim that rehabilitation tax credits are too costly to the federal government have determined this loss simply by analyzing the dollar amount of credits used. This tally ignores the spin-off benefits of additional business activity and jobs that the credits generate. The economic analyses of rehabilitation activities undertaken by several cities and states indicate that these ancillary benefits offset much or all of the tax loss. The credit remains an important tool for revitalizing older districts and restoring their vitality.

## D. Energy Tax Provisions

### Energy Conservation and Renewable Energy Tax Credits

Federal investment tax credits for energy conservation and renewable energy equipment expired on December 31, 1985. In recent years, these credits constituted the largest single federal expenditure for conservation and renewable energy sources. They were particularly important in states that do not have adequate local supplies of conventional energy resources and that are seeking greater self-sufficiency, including all of the states in the Northeast and Midwest. Approximately 60 percent of those who have claimed the energy conservation credit reside in the Northeast-Midwest region.

Representatives Thomas J. Downey (D-NY), Judd Gregg (R-NH), and Cecil Heftel (D-HI) have introduced H.R. 2001, the Renewable Energy and Conservation Transition Act of 1985, which would extend, on a phase-out basis, the tax credits for energy conservation and renewable energy; the bill currently has 209 cosponsors. Senators Alan J. Dixon (D-IL) and Mark Hatfield (R-OR), have introduced companion legislation, S. 1220; it now has 36 cosponsors.

The tax bill passed by the House would extend the tax credits for solar and geothermal energy for three years (while phasing them down) and let the credits for energy conservation, wind, alcohol fuels, and other renewable energy sources expire as scheduled. However, the House and Senate could not reach final agreement on a temporary extension of any of the tax credits at the end of the last session, and thus they expired on December 31. Legislation to extend all the expiring credits for six months, retroactive to January 1, 1986, has been introduced by Senator John Danforth (R-MO) as S. 1912, and now has 70 cosponsors. Legislation to extend the solar and geothermal credits for several months has been introduced in the House. The House Ways and Means Committee and the Senate Finance Committee are expected to address this short-term extension early in 1986.

Regardless of the outcome of extensions of the conservation and renewable energy credits, conventional energy development will continue to be eligible for various tax incentives. The impact of these provisions on energy policy is discussed later in this section.

### Energy Tax Reform

Changing the energy-related provisions of the Internal Revenue Code has proven to be among the most controversial aspects of tax reform. The federal tax code affects nearly every aspect of the energy marketplace, including exploration for and production of fossil fuels and powerplant construction. The broad impact of tax policy on energy industries is a clear indication of how often the tax code has been used as an element of energy policy, usually to subsidize energy production. The loss of these incentives would have an adverse impact on energy firms, though for many this impact would be offset at least partially by the proposed decrease in corporate tax rates. Efforts to eliminate these provisions were strongly opposed by the administration.

The Northeast-Midwest region produces only 2.4 percent of the nation's oil and natural gas. Consequently, the host of tax incentives available for oil and gas production -- without comparable incentives for coal, energy conservation, or alternative energy sources -- creates a significant bias in federal energy tax policy toward the South and West. The president's tax reform proposal and the House tax bill would limit slightly -- by about 8 percent and 18 percent over five years -- the tax advantages enjoyed by oil and gas. The plan would not extend either the energy conservation credit or the renewable energy credit. The House bill would extend only the solar portion of the renewable credit, on a declining basis. Both would increase the coal industry's tax liability. These provisions would maintain the tax code's strong regional bias.

Current Law. The Internal Revenue Code includes numerous incentives that reduce the tax liability of fossil fuel producers and the electric utility industry. Additionally, several other incentives -- particularly the investment tax credit, accelerated depreciation, and the foreign tax allowance -- are used frequently by the conventional energy industry. The president's tax reform proposal (Treasury II) and the House-passed legislation would modify several of these incentives substantially.

The two most significant tax incentives for the oil and gas industry are the expensing of intangible drilling costs (IDCs) and the percentage depletion allowance. Intangible drilling costs are costs associated with such items as labor, supplies, repairs, and other expenses of preparing the site; expensing permits the taxpayer to deduct these costs immediately, rather than over the productive life of the investment, as is the normal accounting procedure. Percentage depletion allows these extraction industries to depreciate the asset value of their resources by a fixed percentage each year, rather than by the actual or cost depletion; therefore the total depletion claimed may exceed the original investment in the property, often by many times.

The president's fiscal 1987 budget request projects that the expensing of IDCs will cost the Treasury $925 million and the percentage depletion allowance will cost $1.85 billion during the next fiscal year. Estimates provided by the Joint Committee on Taxation differ significantly, predicting costs of $3.055 billion and $1.195 billion. The committee projects that by 1989, the incentives will cost more than $3.8 billion and $1.3 billion annually. A summary of the cost of the major energy tax expenditures appears below.

**Outlay Equivalent Estimates for Energy Tax Expenditures**[1]
**Current Law for Fiscal 1987**
(in millions of dollars)

| | |
|---|---|
| **Production -- Fossil Fuel and Other** | |
| o Oil and Gas | 2,775 |
| o Other Fuels (coal, uranium, geothermal) | 595 |
| o Capital Gains Treatment of Coal Royalties | 140 |
| o Other[2] | 70 |
| **Alternative/Renewable** | |
| o Residential Renewable Energy Credits | 20 |
| o Business Renewable and New Technology Credits | 95 |
| o Other[3] | 155 |
| **Conservation** | |
| o Residential Energy Conservation Credits | 0 |
| o Other[4] | 0 |
| **Total with Interactions**[5] | 2,735 |

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[1] All estimates are from the president's budget request.

[2] Includes special rules for mining reclamation reserves.

[3] Includes exclusion of interest on state and local industrial development bonds for certain energy facilities, and alternative fuel production credit (assumes passage of legislation repealing the latter provision).

[4] Energy credit for intercity buses (assumes passage of legislation repealing this provision).

[5] Tax subsidy estimates cannot be added together to obtain totals for functional areas. Adding tax subsidy amounts produces inaccurate totals because certain tax subsidies affect the value of others.

Tax Reform Proposals. All of the major tax reform proposals would reduce the level of tax incentives available for firms engaged in energy development, and would alter other provisions in a way that would affect corporate investment decisions. The president's proposal would have maintained the taxpayer's option to deduct intangible drilling costs immediately. The House-passed proposal would allow the immediate deduction of domestic IDCs incurred prior to the installation of the production casing, an early stage of the production process. Other IDCs would have to be capitalized over 26 months, except for dry holes, which still could be expensed immediately; IDCs incurred in foreign operations could not be expensed.

The president's proposal would modify the percentage depletion allowance, phasing it out for all minerals over a five-year period. The allowance would be retained for independent producers of oil and gas stripper wells (those that produce ten barrels or less of oil or equivalent per day). The House-adopted legislation would phase out percentage depletion over a three-year period, except for stripper wells, which still would be permitted the percentage depletion allowance.

The administration's proposal would maintain current law for the crude oil windfall profit tax (which expires in 1991), while the House-passed bill would modify the tax slightly. Finally, both proposals would phase out, over a three-year period, the special tax treatment for coal royalty income, and would take into account the remaining energy tax incentives in determining minimum tax liabilities.

Impact on Energy Industry. Under current law, more than $20 billion in special tax advantages will be available over the next five years for oil and gas producers. The administration's proposal would reduce these benefits by approximately $1.9 billion; the House legislation would reduce them by about $4.2 billion. Opponents of these changes have claimed that the loss of benefits would impede the domestic production of oil and gas, leaving the nation more dependent on foreign sources. Proponents have argued that these tax provisions distort investment decisions and unfairly attract capital to marginally producing oil and gas wells in the South and West, and away from more economically sound investments elsewhere. Furthermore, they argue that maintaining these tax benefits is inappropriate as part of legislation designed to reform and simplify the tax code.

Indeed, the proposed changes in the tax code will affect the tax liability of energy investments and thereby alter corporate investment patterns. Several studies have quantified the impact of various tax reform proposals on the energy industry. They point out that for most energy companies the most significant elements of the proposals will be reduction of marginal corporate and individual tax rates, repeal of the investment tax credit, and changes in depreciation schedules. Highlights of the major reports follow.

- The **Energy Information Administration** (Analysis of the Impacts of the President's Tax Proposal on Major Sectors of the Energy Industry, August 1985) determined that under the president's proposal:

  -- "no net effect on oil and gas production is likely";

-- the tax burden on coal operations would increase substantially, with the increase five times greater for mined underground coal than for surface-mined coal; and

-- the tax liability of utility companies would be reduced by half.

- The **Congressional Budget Office** (Tax Reform: Its Effects on the Oil and Gas Industry, October 1985) conducted its evaluation at the request of the Northeast-Midwest Congressional Coalition and concluded that:

  -- "the President's plan would be unlikely to have any detrimental effect on the overall level of drilling and production in the United States"; and

  -- Oil and gas producers pay an effective federal tax rate that is only one-third of that paid by all other industries (10 percent versus 29 percent), a ratio that would change little under the president's proposal (8 percent versus 24 percent). The Congressional Research Service found that even under the provisions passed by the House, oil and gas production would remain the most favored industry in the economy in terms of tax burden on fixed investment.

Furthermore, the proposed changes are intended to prevent the abusive use of oil and gas investments to shelter personal income. For example, according to the Internal Revenue Service, in 1982 half of IDC benefits were claimed by only 31,000 individuals who earned more than $100,000 annually; their average claim was $28,000.

Electric and gas utilities are affected most by the provisions governing the tax liability of capital investments, namely the investment tax credit and the accelerated depreciation schedules. In 1982, public utilities accounted for 8.2 percent of the total U.S. depreciation deduction and 20 percent of the total investment tax credit. Even with the proposed elimination of the investment tax credit, the accelerated depreciation schedules for powerplant construction in the president's plan (along with the lowered corporate tax rate) would cut the tax liability of the electric utility industry in half. Such changes would alter dramatically the decisions made by utility companies by providing an enormous incentive in favor of capital-intensive investments -- such as powerplant construction -- and away from less capital-intensive, less tax-favored options -- such as bulk power purchase and power planning. The House-passed tax bill would put utility depreciation schedules more on a par with similar investments in other sectors of the economy, bringing the effective tax rates for utilities up to the overall industrial average, although still below the manufacturing sector average.

## Regional Implications

The president's proposal and the House-passed bill, unlike the original Treasury proposal, maintain several of the most significant incentives for the oil and gas industry. Furthermore, many of the fossil fuel preferences that would be eliminated would be phased out over several years to avoid disruption of the industry. Neither proposal maintains incentives for energy conservation, and both limit the incentives for coal and renewable energy resources significantly.

The host of tax incentives available for oil and gas production -- incentives that in large part would be retained under the president's tax reform proposal and the House tax bill -- increase the already strong bias in federal energy tax policy toward the South and West. The president's proposal would limit the oil and gas tax advantages over the next five years by about 8 percent, the House tax bill by about 18 percent. In sharp contrast, neither would extend the expired energy conservation tax credit, and both would increase the tax liability of the coal industry. This will attract investment capital to the oil-producing areas of the South and West and away from investments elsewhere, thereby maintaining the tax code's strong regional bias.

## E. Tax-Exempt Finance

In the past five years, "tax-exempt finance" has become increasingly prominent as an economic development tool. Many jurisdictions find it an attractive alternative, especially at a time when federal direct grant and loan programs are shrinking.

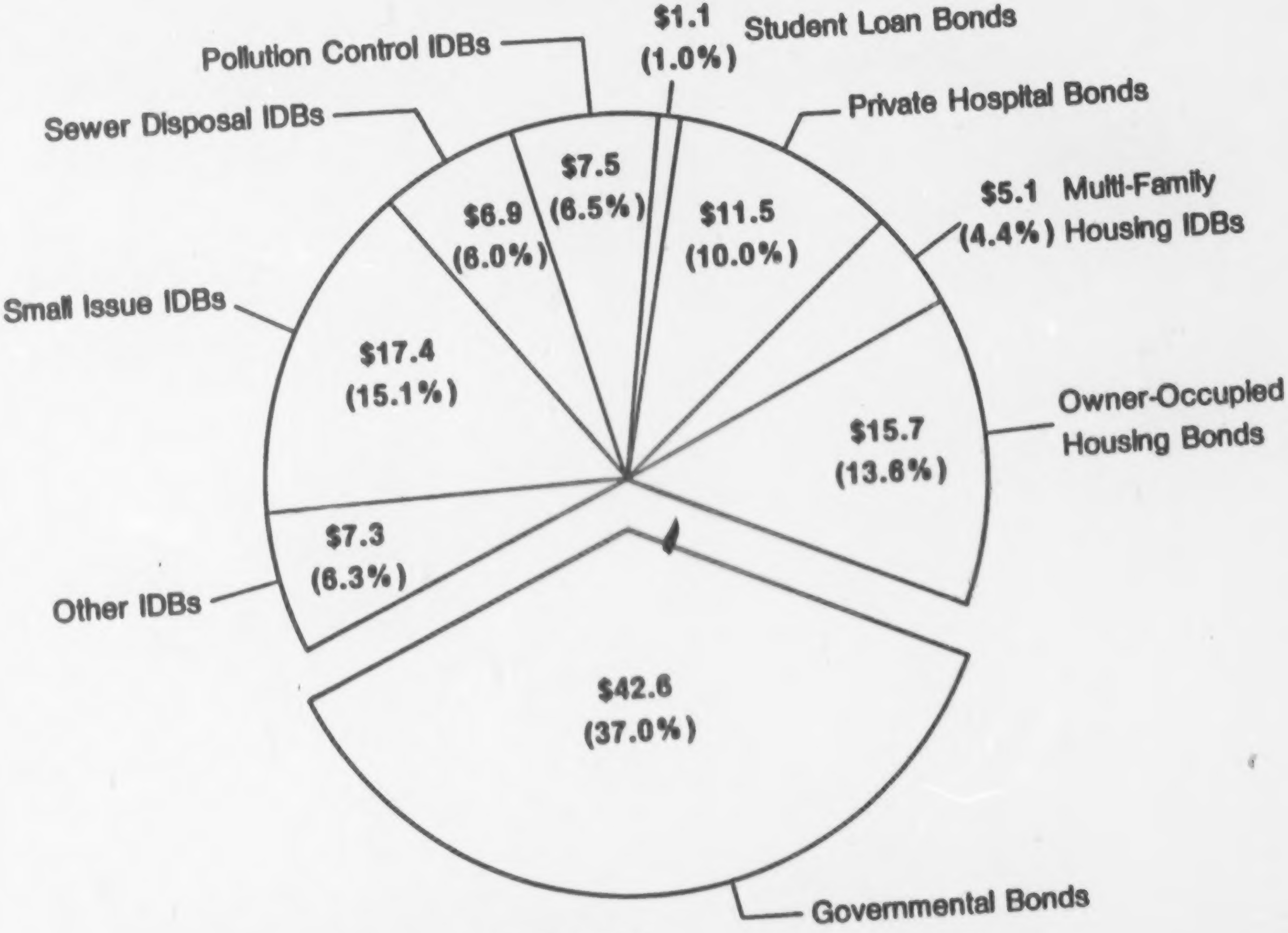
Tax-exempt bonds are issued by states, local governments, and numerous quasi-government authorities and special districts. They are appealing to investors because the interest they bear is exempt from federal taxation, and attractive to the issuing jurisdiction because they can provide or leverage capital at less than the prevailing market cost for public projects or private ventures sought by the community.

The total volume of all long-term tax-exempt bonds issued in 1984 is estimated at $115 billion. Under current law, state and local governments may issue tax-exempt instruments to finance several types of activities:

- General government obligations (GOs). GO bonds are used to finance general government projects or operations such as schools or roads.
- Charitable organizations. Governments may issue bonds to assist certain "charitable" organizations; private hospitals and colleges are the most common recipients of this type of financing.
- Industrial development bonds (IDBs) for special activities (exempt-entity IDBs). States and local governments are permitted to issue IDBs that are exempt from some or all of the statutorily imposed IDB restrictions for specific private activities that serve public purposes. These include multi-family residential rental property; sports facilities; airports, docks, and mass commuting facilities; sewage and solid waste disposal facilities; air and water pollution control facilities; and local district heating and cooling facilities.
- Small issue IDBs. The "small issue exception" allows governments to market small issue IDBs (generally, less than $1 million face value) to aid in the acquisition, construction, or improvement of privately owned and operated businesses.

# Volume of Long-Term Tax-Exempt Bonds Issued in 1984

(Amounts in $Billions)



SOURCE: Office of the Secretary of the Treasury, Office of Tax Analysis,
Testimony of Mikel M. Rollyson, Tax Legislative Counsel,
before the Committee on Ways and Means, U.S. House of Representatives, June 21, 1985.

- Other industrial development bonds. These are issued by a variety of government and public authorities to help private companies and organizations with financing to establish or expand their operations. They are subject to a variety of use and volume restrictions and disincentives.

- Mortgage subsidy bonds. A government may issue mortgage subsidy bonds to finance the purchase or rehabilitation of single-family, owner-occupied homes located within its jurisdiction.

- Student loan bonds. State and local governments may issue tax-exempt bonds to finance loans to students.

In the last few years, Congress and the administration have focused on the proliferating volume of "private activity" bonds, which include all of the above except for general obligation bonds. In 1984, volume for these bonds totalled $53.09 billion, compared to $38.87 billion in 1983, an increase of nearly 37 percent. As indicated in the following table, most of the growth occurred in the issuance of IDBs, especially pollution control and sewage and waste disposal bonds. Private activity tax-exempt bonds accounted for 63 percent of the total bond volume in 1984.

**Private Tax-Exempt Activity Bonds, 1983 and 1984**

| | 1983 | 1984 | Percent Change |
|---|---|---|---|
| Student loans | 3,086 | 1,680 | -45.6 |
| Exempt-entity bonds | 8,096 | 10,055 | 24.2 |
| IDBs (small issue and others) | 27,688 | 41,352 | 49.4 |
| TOTAL | 38,869 | 53,086 | 36.6 |

SOURCE: U.S. Department of the Treasury, Office of Tax Analysis, excerpted from testimony of Mikel M. Rollyson, Tax Legislative Counsel, before the Committee on Ways and Means, U.S. House of Representatives, June 21, 1985.

In spite of the restrictions imposed by the 1982 and 1984 tax acts, small issue IDBs remain a very important tool for state and local economic development. Their continuation in some form helps governments to increase private investment at a time when alternative federal resources are declining.

Some view tax-exempt finance -- particularly IDBs -- as an uncontrollable subsidy to private businesses, undertaken by state and local governments with little regard for the federal revenue impact of their actions. Others argue that simply tallying the foregone tax receipts from exempt interest income fails to consider the very real job and economic benefits attributable to business development that results from bond financing.

## Administration Proposal

Treasury II contained several of criticisms of private tax-exempt bonds that are reflected in its proposal to curtail their use. In general, the administration would deny tax exemption to any obligation issued by a state or local government where more than one percent of the proceeds are to be used "directly or indirectly" by any person other than a government unit, unless the facilities are available for use by the general public on the same basis. This is the so-called "one percent test," a new standard for determining the tax-exemption of an issue bond.

In essence, this proposal would prohibit the use of tax-exempt bonds to finance any facility other than those owned and operated by the state or local government issuing the security. These issues no longer could be offered as financing for facilities intended for private use, such as office complexes, industrial parks, or residential rental projects. Contracts for private management of a facility would be allowed, although these could not exceed one year.

The administration's proposal effectively would eliminate the use of small issue IDBs and other tax exempt bonds typically characterized as private purpose. The one percent test would impose a narrow definition that virtually would require governments to provide the goods and services from facilities assisted with tax-exempt bonds. Under such a provision, bonds for certain privately owned facilities that provide benefits to the public would lose their tax-exempt status. These would include bonds issued to finance solid waste disposal, airports, docks and wharves, and most water and sewer facilities. Some estimates project that 65 to 80 percent of all bonds currently classified as tax exempt would lose this status under the administration's proposal. They would have to be issued on a taxable basis, or not at all.

## House Bill

The provisions in H.R. 3838 are not quite as restrictive as those in the administration's proposal, but they would impose significant new constraints on private purpose tax-exempt bond activity. Under terms of the House-passed bill, bonds issued for traditional governmental activities would be referred to as "essential function bonds." H.R. 3838 would institute a "10 percent" test for other instruments. It declares that bonds are considered to finance "nongovernmental" activities if either:

- The lesser of 10 percent or $10 million of bond proceeds is used to help the trade or business of a "nongovernmental" person; or
- The lesser of 5 percent or $5 million of bond proceeds is used to finance loans to such a person.

The interest on nongovernmental bonds would be taxable unless the instruments could qualify under one of the specified "nonessential" function exceptions.

H.R. 3838 would continue to permit tax-exempt bond finance for what now are termed "exempt-activity" IDBs. These "nonessential function bonds" include small issue IDBs; most mortgage and multi-family residential project bonds; exempt-facility bonds for airports, docks, wharves, mass commuting facilities, and sewage and solid waste disposal facilities; and student loan bonds.

The bill specifically would repeal eligibility for tax-exempt finance for industrial parks; pollution control facilities; investor-owned gas and electric utilities; sports, trade, and convention centers; and most parking facilities. It would raise the existing private activity bond volume limit in each state from $150 per capita to $175 per capita, but would include several new bond categories in the tally subject to limitation. These additions are described more fully later. The new provisions would apply to all bonds issued on or after January 1, 1986. H.R. 3838 includes detailed transition language to cover projects in progress.

The table on the following page shows the level of recent bond activity in selected categories on a state-by-state basis. It provides comparisons of volume limits for 1986 under current law (at the $150 per capita/$200 million minimum limit) and the proposed limits H.R. 3838 would put into place. Under current law, all student loan and most IDB activity in a state falls under the statutory ceiling. The House-passed bill provides a unified state volume limitation for all nonessential function bonds and the nongovernmental portion (in excess of $1 million) of essential function bonds.

The House-passed bill would increase the limit by $25 per capita (to $175), although the increase is earmarked for private activity bonds benefitting hospitals, colleges, and other charitable organizations. The bill also would place several more categories under the prescribed ceiling, including multi-family, single family, and veterans housing; water facilities; mass commuting facilities; charitable organizations; and many "qualified redevelopment" (tax-increment) finance bonds.

The final column in the table, "1984 Activity as Percent of Volume Limit," under the House passed bill, is provided to indicate the fiscal pressures H.R. 3838 would place on activity in many states. It includes mortgage bond issues not otherwise represented. The figures, developed by the National League of Cities, show clearly that, for the first time, state and local officials would have to choose among a number of competing demands for tax-exempt financing -- housing, student loans, hospitals, water quality, infrastructure, and economic development.

## Regional Implications

Changes in tax-exempt finance proposed by both the House and the administration, if enacted, would affect the way various projects are structured and how economic development activities are undertaken in the region. Many local officials are concerned about the rules, definitions, and interpretations that later would be associated with these provisions if they become law. For example, future IRS rulings on the definition of "user" could deter the use even of traditional general obligation bonds for certain types of infrastructure improvement.

Financing for some major capital projects within the region, such as sewers, roads, and schools, already has been postponed because of the uncertainty in the bond market. If the law is changed, many of these projects would have to be repackaged, probably with higher financing costs. In many communities within the region, government-private sector partnerships that build and operate solid waste, pollution control, and sewer facilities would be curtailed. In other jurisdictions, the specter of change in tax-exempt finance has inhibitied cooperative ventures with private business.

## IDBs and Other Private Tax-Exempt Bonds: Activity by State[1]
(in millions of dollars)

| Region and State | 1983 Total | 1984 Total | 1984 Non-IDBs[2] | 1984 IDB Small Issue[3] | 1984 IDB Other[4] | 1986 Current Law Estimated IDB Volume Limits Per Capita[5] | 1986 House-Passed Bill Volume Limits $175 per Capita[6] | 1986 House-Passed Bill 1984 Activity as Percent of Volume Limit[7] |
|---|---|---|---|---|---|---|---|---|
| **New England** | | | | | | | | |
| Connecticut | 313 | 480 | 78 | 201 | 201 | 483.1 | 564 | 111 |
| Maine | 49 | 77 | 1 | 60 | 17 | 200.0 | 203 | 83 |
| Massachusetts | 1,556 | 1,375 | 669 | 508 | 198 | 873.3 | 1,034 | 151 |
| New Hampshire | 246 | 296 | 50 | 101 | 145 | 200.0 | 200 | 114 |
| Rhode Island | 105 | 430 | 96 | 64 | 273 | 200.0 | 200 | 291 |
| Vermont | 106 | 118 | 32 | 72 | 14 | 200.0 | 200 | 77 |
| Total | 2,375 | 2,776 | 980 | 1,008 | 848 | 2,149.4 | 2,401 | -- |
| **Mid-Atlantic** | | | | | | | | |
| Delaware | 116 | 243 | 33 | 135 | 76 | 200.0 | 200 | 98 |
| Maryland | 960 | 1,266 | 183 | 527 | 556 | 658.8 | 763 | 182 |
| New Jersey | 1,426 | 1,912 | 256 | 930 | 726 | 1,134.3 | 1,331 | 144 |
| New York | 1,722 | 3,436 | 1,014 | 1,258 | 1,164 | 2,667.5 | 3,160 | 95 |
| Pennsylvania | 2,320 | 3,802 | 993 | 1,506 | 1,305 | 1,778.0 | 2,123 | 162 |
| Total | 6,544 | 10,659 | 2,479 | 4,356 | 3,827 | 6,438.6 | 7,577 | -- |
| **Midwest** | | | | | | | | |
| Illinois | 1,706 | 2,320 | 363 | 757 | 1,201 | 1,730.3 | 2,048 | 93 |
| Indiana | 1,054 | 940 | 113 | 372 | 454 | 824.9 | 979 | 98 |
| Iowa | 317 | 307 | 15 | 200 | 92 | 432.6 | 520 | 80 |
| Michigan | 750 | 1,601 | 248 | 681 | 673 | 1,363.2 | 1,630 | 92 |
| Minnesota | 1,253 | 1,213 | 138 | 634 | 443 | 629.0 | 740 | 174 |
| Ohio | 1,362 | 1,196 | 172 | 664 | 361 | 1,611.6 | 1,931 | 74 |
| Wisconsin | 298 | 539 | 173 | 322 | 42 | 716.3 | 853 | 92 |
| Total | 6,740 | 8,116 | 1,222 | 3,630 | 3,266 | 7,307.9 | 8,701 | -- |
| Missouri | 1,056 | 1,170 | 251 | 393 | 527 | 754.3 | 886 | 128 |
| Total with Missouri | 7,796 | 9,286 | 1,473 | 4,023 | 3,793 | 8,062.2 | 9,587 | -- |
| **Northeast** | 8,919 | 13,435 | 3,399 | 5,364 | 4,675 | 8,588.0 | 9,978 | -- |
| **Midwest*** | 6,740 | 8,116 | 1,222 | 3,630 | 3,266 | 7,307.9 | 8,701 | -- |
| **Northeast and Midwest*** | 15,659 | 21,551 | 4,621 | 8,994 | 7,941 | 15,895.9 | 18,679 | -- |
| **South**[8] | 13,321 | 20,342 | 3,448 | 6,004 | 10,886 | 11,352.3 | 12,995 | -- |
| **West** | 9,887 | 10,670 | 2,418 | 2,507 | 5,745 | 9,409.4 | 10,437 | -- |
| **South and West** | 23,208 | 31,012 | 5,866 | 8,511 | 16,631 | 20,761.7 | 23,432 | -- |
| **U.S. Total**[9] | 38,867 | 52,561 | 10,488 | 17,505 | 24,568 | 36,657.6 | 42,111 | 132 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Figures may not add due to rounding.

[2] Student loan bonds ($1.7 billion nationally) and exempt entity (principally hospitals and educational facilities) bonds ($10 billion).

[3] Includes IDBs for industrial parks.

[4] For rental housing ($5 billion nationally); airports and docks ($3.8 billion); sewage and waste disposal ($6.6 billion); pollution control ($7.6 billion); sports and convention facilities ($573 million); electric and gas ($413 million); miscellaneous ($382 million).

[5] $150 per capita for most IDBs and all student loan bonds, per existing law.

[6] Proposed unified bond volume limit, which includes a $25 per capita permanent set aside for 501(c)(3) organization bonds as well as IDBs, student loan bonds, mortgage bonds, and veterans mortgage bonds.

[7] Includes mortgage bonds not otherwise represented.

[8] Regional totals do not include figures for District of Columbia

[9] U.S. totals do not include District of Columbia, Puerto Rico or the Territories.

SOURCES: Staff calculations from the Office of the Secretary of the Treasury, Office of Tax Analysis, unpublished data, December 5, 1985; FFIS Newsletter (Federal Funds Information for States), Vol. III, Chapter 1; and Nation's Cities Weekly, Vol. 8, No. 49, December 16, 1985, p. 18.

## F. Capital Cost Issues

Early in 1986, the Senate Finance Committee held a series of hearings on the potential economic consequences of H.R. 3838, the House-passed tax bill. Many witnesses were concerned that provisions in the administration's tax proposal and in H.R. 3838 would increase the net cost to corporations of capital investment in buildings and equipment. Such an increase, they argued, would make it more difficult for industries seeking to "retool" their capital stock to compete in the international economy.

Others claim that the administration's proposed capital formation incentives, including cost recovery provisions, would not alter aggregate national investment and savings substantially. They also argue that repeal of the investment tax credit (proposed in both the administration's plan and the House bill) would be offset by the reduction in corporate tax rates.

H.R. 3838 and the administration's tax plan (Treasury II) each would make major changes in tax policy affecting capital investment. The changes would include a reduction in the overall corporate tax rate and elimination or alteration of many of the central features of present corporate tax law. The depreciation system would be modified and the investment tax credit eliminated, as described below.

### Depreciation

The Economic Recovery Tax Act (ERTA) of 1981 initiated the Accelerated Cost Recovery System (ACRS) for depreciable property placed in service after 1980. ACRS provided substantial incentives for investing in capital assets and simplified the depreciation rules by limiting the number of classes of assets. Corporations are allowed to depreciate the cost of capital investment over a pre-determined recovery period that generally is shorter than the asset's actual useful life. Firms that have profits and thus pay taxes can recover the cost of an asset before it stops producing income. Under prior law, an asset's cost was recovered over its estimated useful life.

The 1981 law grouped depreciable property into four broad classes, each with a specified useful life for tax purposes. While a few assets (such as autos, light trucks, and some small tools) may be depreciated fully in three years, most machinery and equipment are written off over five years. Regulated public utility property is depreciated over ten to 15 years, and buildings over 19 years. (See the table on page IV.31 for information on the amount of depreciation deductions by industry.)

Both H.R. 3838 and the administration's proposal would make major changes in this depreciation system and increase federal tax revenues. The administration plan -- the Capital Cost Recovery System (CCRS) -- would distinguish among assets by assigning them to six separate classes, each with a different depreciation rate and recovery period. Assets would be divided into recovery classes based on their useful lives. Each class would be assigned a recovery period of between four and 28 years. CCRS would account for inflation by allowing deductions for the inflation-adjusted cost of an asset rather than only for historical costs. Under current law, depreciation allowances are not indexed against inflation. The chart on the next page compares ACRS (separately and in combination with the investment tax credit) and the proposed CCRS.

**Comparison of ACRS/ITC and CCRS Based on a $1000 Investment**

| Class of Property | Present Value of Deductions<br>10 Percent Inflation | <br>5 Percent Inflation | <br>0 Percent Inflation |
|---|---|---|---|
| ACRS 3-year property (no ITC) | $865 | $908 | $957 |
| ACRS 3-year property (with ITC)[2] | 969 | 1011 | 1058 |
| CCRS Class 1 | 955 | 954 | 953 |
| ACRS 5-year property (no ITC) | 766 | 837 | 922 |
| ACRS 5-year property (with ITC)[3] | 945 | 1012 | 1093 |
| CCRS Class 2 | 940 | 940 | 939 |
| CCRS Class 3 | 920 | 920 | 919 |
| CCRS Class 4 | 891 | 890 | 889 |
| CCRS Class 5 | 853 | 853 | 853 |
| ACRS 18-year property | 454 | 570 | 760 |
| CCRS Class 6 | 760 | 610 | 610 |

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[1] Present values are computed using a 4.0 percent real rate of return, which converts to a discount rate of 4 percent with no inflation, 9.2 percent with 5 percent inflation, and 14.4 percent with 10 percent inflation. These present values are overstated because they treat the first year's tax benefit as occurring immediately rather than at the subsequent estimated tax payment dates.

[2] Deduction value of ITC is determined at a 46 percent tax rate. Figures reflect basis adjustment and 6 percent ITC.

[3] Deduction value of ITC is determined at a 46 percent tax rate. Figures reflect basis adjustment and 10 percent ITC.

SOURCE: Calculations from The President's Tax Proposals to the Congress for Fairness, Growth, and Simplicity (Washington, D.C., May 1985).

The House bill would replace current law with a less generous method that would lengthen the period of time over which most investment could be depreciated. Under the House cost recovery system, known as the Incentive Depreciation System (IDS), assets would be grouped into ten classes. Each class would be assigned a depreciation method and a recovery period, ranging from three to 30 years. However, under the House bill, more of an asset's cost could be depreciated in earlier years than under current law.

The bill also would allow the value of depreciated assets to be indexed to compensate for some of the impact of inflation. This would begin in 1988, if inflation exceeded 5 percent; indexing would reflect half the increase in inflation above 5 percent.

## Investment Tax Credit

The investment tax credit (ITC) is another provision in current law that can reduce capital tax liabilities significantly. Both the House-passed bill and the administration's proposal would repeal this credit.

The ITC originally was added to the tax code to decrease the eroding effects of inflation on capital incentives, and to promote increased capital investment. Under current law, the ITC serves as a credit that reduces the corporation's income tax liability. It is allowed for investment in certain tangible depreciable property, primarily machines and equipment used in the production process. The credit ranges from 6 to 10 percent of the item's cost, depending on the ACRS recovery class to which the property is assigned. The table on the following page provides information on use of the investment tax credit by industry.

The ITC has some strong advocates in the business community, who argue it has spurred plant modernization. The administration argued initially that with the advent of ACRS the credit became more of a tax shelter than an economic investment consideration, leading to negative tax rates for some companies. While not endorsing any specific provision, the president has since urged the Senate to readdress the issue of tax incentives for capital investment.

Industry leaders have given mixed reaction to the proposed elimination of the ITC. Representatives of the steel industry have decried the potential adverse effect on capital formation if the ITC is eliminated. On the other hand, one large automaker supported the administration's proposed elimination of the ITC because it would promote neutrality in the tax code among industrial sectors and help minimize the distortion of resource allocation within the economy. No consensus has emerged to date, even among similar heavy manufacturing industries.

The effect of any proposed tax code changes on total capital investment is extremely difficult to predict. Macroeconomic models, which assume that the cost of capital would increase under changes such as those in the House bill, and that corporate cash flow would diminish, suggest that total investment would decline somewhat in the early years after enactment but rebound in later years. At the same time, these models project that if any changes result in the improved use and allocation of capital in the economy (which both the administration and the House-passed bill seek to achieve), the level of economic output would rise further.

Predictions based on potential provisions of the tax law are impossible to prove. However, any sweeping change in incentives for capital investment inevitably would redirect it away from some industries and activities to others.

## Utilization of the Capital Formation Provisions: 1982

|  | Depreciation Deduction |  | Investment Tax Credit |  |
|---|---|---|---|---|
| Industry | Amount (in millions of dollars) | Percent of U.S. Total | Amount (in millions of dollars) | Percent of U.S. Total |
| **Agriculture, forestry, and fishing** | **2,892.3** | **1.36** | **118.5** | **0.68** |
| **Mining** | **7,306.9** | **3.43** | **425.8** | **2.46** |
| **Construction** | **6,033.4** | **2.83** | **322.8** | **1.86** |
| **Manufacturing** | **88,945.7** | **41.72** | **6,724.5** | **38.84** |
| Food and kindred products | 7,370.7 | 3.41 | 755.6 | 4.48 |
| Tobacco manufacturers | 1,009.3 | 0.47 | 155.1 | 0.90 |
| Textile mill products | 1,361.1 | 0.64 | 79.5 | 0.46 |
| Apparel and other textiles | 635.4 | 0.30 | 47.0 | 0.27 |
| Lumber and wood products | 2,355.8 | 1.11 | 31.8 | 0.18 |
| Furniture and fixtures | 442.0 | 0.21 | 38.8 | 0.20 |
| Paper and allied products | 3,138.9 | 1.47 | 295.8 | 1.70 |
| Printing and publishing | 3,472.9 | 1.63 | 373.3 | 2.16 |
| Chemicals and allied products | 9,381.3 | 4.40 | 491.0 | 2.84 |
| Petroleum | 16,114.6 | 7.56 | 2,103.6 | 12.15 |
| Rubber and plastic products | 1,151.4 | 0.54 | 85.3 | 0.49 |
| Leather and leather products | 180.4 | 0.08 | 14.4 | 0.08 |
| Stone, clay, and glass products | 2,495.4 | 1.17 | 96.6 | 0.56 |
| Primary metal industries | 5,477.5 | 2.57 | 106.0 | 0.61 |
| Fabricated metal products | 3,951.1 | 1.85 | 250.4 | 1.45 |
| Machinery, except electrical | 9,280.7 | 4.35 | 623.3 | 3.60 |
| Electrical and electronic equipment | 7,825.9 | 3.67 | 478.1 | 2.76 |
| Motor vehicles and equipment | 7,301.6 | 3.43 | 237.2 | 1.37 |
| Transportation equipment, except motor vehicles | 2,954.3 | 1.39 | 77.5 | 0.45 |
| Instruments and related products | 1,995.4 | 0.94 | 291.2 | 1.68 |
| Other | 1,049.9 | 0.49 | 77.4 | 0.45 |
| **Public Utilities and Transportation** | **48,929.9** | **22.95** | **6,287.2** | **36.32** |
| **Wholesale and Retail Trade** | **24,948.6** | **11.70** | **1,575.0** | **9.10** |
| **Finance, Insurance, and Real Estate** | **15,888.0** | **7.45** | **811.9** | **4.69** |
| **Services** | **17,117.7** | **8.03** | **1,041.3** | **6.01** |
| **Unallocable** | **116.8** | **0.05** | **5.7** | **0.03** |
| **TOTAL** | **213,179.2** | **100.00** | **17,312.7** | **100.00** |

SOURCE: U.S. Department of the Treasury, Internal Revenue Service, 1982 Statistics of Income -- Corporation Income Tax Returns (Washington, D.C., 1985).

## G. Oil Import Fee

The tax bill passed by the House of Representatives assumes revenue neutrality and shifts a considerable amount of the tax burden from individuals to corporations. The Senate may seek to maintain certain types and levels of business incentives. To do this, it will have to identify some new sources of revenue, if it wishes to keep personal tax rates at the House level or lower and pass a revenue-neutral bill.

Several revenue-raising strategies have been considered. A business transfer tax similar to a European-style value-added tax (VAT) is the focus of some congressional interest Others have suggested increases in existing excise taxes on cigarettes, alcohol, and other products; however, these kinds of taxes would not raise significant revenues.

The idea of an oil import fee also has received new attention as part of a possible strategy to reduce the deficit or to offset revenue losses in tax reform legislation. Although the president remains opposed to an oil import fee as a deficit reduction strategy, he has indicated he may accept one as part of a reve-nue-neutral tax reform package. The oil import fee proposal has attracted renewed attention in part because world oil prices have fallen as low as $16 a barrel.

The impact of such a fee would be distributed unevenly among states and sectors of the economy, and would have the greatest negative impact on Northeastern and Midwestern states. It would raise the price of domestically produced oil by roughly the same amount as imported oil, and in turn affect the price of natural gas and coal. For every dollar collected by the federal government on imported oil, domestic producers would receive a $2 windfall from higher prices. Not only would producers in the South and West receive 97.5 percent of this windfall, but the higher prices would generate extra revenues for states where energy resources are located. Most such states impose severance taxes that are tied to the selling price of energy resources. For example, Texas would gain approximately $200 million in additional severance taxes from a $5/barrel oil import fee. The Northeast-Midwest region, while heavily dependent on oil for its energy needs, accounts for only 2.5 percent of domestic oil production.

The cost paid by consumers would fall disproportionately on those heavily dependent on oil. For instance, in 1983 petroleum accounted for an average of 65 percent of all energy used in New England and 52 percent in all Northeastern states, compared to a national average of 43 percent.

Dependence on oil for home energy needs varies even more. In 1982 New England households depended on oil for 45 percent of their energy needs. For the Mid-Atlantic states the figure was 28 percent, while for the South and West it was 8 percent. The national average was 15 percent. The generation of electricity from oil also varies dramatically, representing 41 percent in New England in 1982, 17 percent in the Mid-Atlantic states, and 9 percent in the Midwest, compared to 4 percent in the South and 3 percent in the West. The proposed tax would exact a penalty from consumers who use heating oil and buy electricity from utilities with oil-fired generation. Consumers who use natural gas and buy coal-fired electricity would pay no such direct penalty.

An oil import fee also has a number of other disadvantages:

- It would disrupt international commerce, particularly with close allies. Our largest oil suppliers in 1985 were Canada (supplying 15.2 percent of total U.S. oil imports) and Mexico (16.7 percent). An oil import fee would impede Mexico's ability to repay its debt to U.S. banks and strain trade relations with Canada. Imports from OPEC averaged 35.5 percent; the Arab nations in OPEC accounted for only 8.7 percent of U.S. oil imports.

- It would reduce the ability of energy-intensive U.S. industries to compete in foreign markets, and could further erode employment in export-oriented industries. A fee would prevent U.S. industries from enjoying the same benefits of reduced oil prices as their competitors in world markets. The agriculture and steel industries, which are undergoing acute financial distress, would be hit particularly hard by an oil import fee.

- By raising the price of oil products and possibly other energy sources, it could lessen expansion of the gross national product and reduce overall tax revenues. Data Resources, Inc. estimates that if crude oil prices stabilize at $20/barrel, the gross national product would grow by an additional 2 percent by 1988, and 900,000 new jobs would be created.

- It is a particularly regressive tax. Low-income households spend a disproportionate share of their budgets on home energy -- about 20 percent, approximately four times the share paid by the average-income household -- even though their consumption is lower. They also have the least flexibility with which to weatherize their homes, purchase more energy-efficient appliances, or make other energy conservation investments.

Although proponents argue that the need to protect domestic producers from imports should be the overriding consideration, this runs counter to the administration's reliance on the marketplace to determine energy supply and price, and its opposition to protectionist legislation. It also promotes greater reliance on domestic production at a time when world prices are falling, which in the long run could leave the nation more vulnerable to price and supply disruptions -- a policy referred to critically as "drain America first." This policy also would be put into effect at the same time the administration is placing a moratorium on filling the Strategic Petroleum Reserve, further increasing American vulnerability.

Because they would eliminate the windfall that domestic energy producers would gain from an oil import fee, other tax alternatives, such as a gasoline tax or an across-the-board energy tax, would be distributed more equitably. Although all three taxes could raise $10 billion in revenues for the Treasury, the oil import fee would cost consumers $31 billion. The Northeast-Midwest region would pay $12 billion with an oil import fee, compared to $4 billion for a gasoline or energy tax. (The table on the following pages shows the potential consumer impact of these proposals.) The three alternatives would have the following impact on gasoline and heating oil prices.

- **Oil Import Fee:** 14 cents/gallon on heating oil and 13 cents/gallon on gasoline;
- **Gasoline Tax:** 10 cents/gallon on gasoline; and
- **Energy Tax:** 2 cents/gallon on heating oil and on gasoline.

For energy consumers in the Northeast and Midwest -- homeowners, factories, and commuters alike -- the high price of an oil import fee would have a serious impact. It also would interfere with the region's continued economic growth.

**Consumer Impact of Energy Tax Alternatives Raising $10 Billion***
(in millions of dollars)

| Region and State | $10 Billion Oil Import Fee | | $10 Billion Gasoline Tax[2] | $10 Billion Energy Tax[3] |
|---|---|---|---|---|
| | Producers' Windfall | Consumer Impact[1] | | |
| **New England** | | | | |
| Connecticut | 0 | 478 | 127 | 96 |
| Maine | 0 | 254 | 50 | 49 |
| Massachusetts | 0 | 809 | 219 | 170 |
| New Hampshire | 0 | 123 | 39 | 26 |
| Rhode Island | 0 | 98 | 35 | 25 |
| Vermont | 0 | 60 | 23 | 15 |
| **Mid-Atlantic** | | | | |
| Delaware | 0 | 117 | 30 | 26 |
| Maryland | 0 | 509 | 184 | 156 |
| New Jersey | 0 | 1,277 | 323 | 295 |
| New York | 6 | 1,781 | 530 | 470 |
| Pennsylvania | 28 | 1,293 | 428 | 462 |
| **Midwest** | | | | |
| Illinois | 190 | 1,243 | 446 | 475 |
| Indiana | 36 | 683 | 239 | 310 |
| Iowa | 0 | 384 | 135 | 135 |
| Michigan | 201 | 707 | 300 | 332 |
| Minnesota | 0 | 534 | 192 | 170 |
| Ohio | 101 | 1,276 | 446 | 499 |
| Wisconsin | 0 | 482 | 195 | 181 |
| **South** | | | | |
| Alabama | 130 | 486 | 181 | 189 |
| Arkansas | 123 | 314 | 108 | 107 |
| District of Columbia | 0 | 47 | 17 | 23 |
| Florida | 95 | 1,530 | 493 | 343 |
| Georgia | 0 | 730 | 283 | 236 |
| Kentucky | 51 | 451 | 168 | 176 |
| Louisiana | 3,394 | 1,476 | 210 | 455 |
| Mississippi | 216 | 339 | 111 | 113 |
| North Carolina | 0 | 678 | 280 | 228 |
| Oklahoma | 1,109 | 479 | 178 | 185 |
| South Carolina | 0 | 335 | 150 | 138 |
| Tennessee | 6 | 503 | 224 | 225 |
| Texas | 5,959 | 3,815 | 812 | 1,138 |
| Virginia | 0 | 651 | 249 | 210 |
| West Virginia | 23 | 195 | 78 | 95 |

## Consumer Impact of Energy Tax Alternatives Raising $10 Billion*

(in millions of dollars)
(continued)

| Region and State | $10 Billion Oil Import Fee | | $10 Billion Gasoline Tax[2] | $10 Billion Energy Tax[3] |
|---|---|---|---|---|
| | Producers' Windfall | Consumer Impact[1] | | |
| **West** | | | | |
| Alaska | 4,152 | 168 | 20 | 59 |
| Arizona | 1 | 317 | 137 | 107 |
| California | 2,714 | 2,905 | 1,067 | 817 |
| Colorado | 190 | 347 | 140 | 120 |
| Hawaii | 0 | 237 | 30 | 33 |
| Idaho | 0 | 112 | 43 | 48 |
| Kansas | 499 | 362 | 119 | 130 |
| Missouri | 2 | 600 | 245 | 197 |
| Montana | 196 | 140 | 44 | 42 |
| Nebraska | 42 | 211 | 75 | 73 |
| Nevada | 13 | 139 | 47 | 41 |
| New Mexico | 523 | 212 | 71 | 65 |
| North Dakota | 347 | 141 | 38 | 34 |
| Oregon | 0 | 356 | 118 | 114 |
| South Dakota | 9 | 112 | 37 | 28 |
| Utah | 228 | 184 | 66 | 69 |
| Washington | 0 | 554 | 186 | 218 |
| Wyoming | 818 | 170 | 33 | 53 |
| **U.S. Total** | 21,403 | 31,403 | 10,000 | 10,000 |

*All state figures based on 1983 percentages. The ratio of petroleum imports to total petroleum consumption is based on 1984 data.

[1] Averages $5.81/barrel on petroleum imports, assumes domestically produced oil price equals import price and averages 14.3 cents/gallon fuel oil and 12.6 cents/gallon gasoline. Although the price of oil affects the price of natural gas and coal as well, it is not possible to quantify the impact.

[2] Averages 9.9 cents/gallon gasoline tax.

[3] Averages 1.8 cents/gallon gasoline tax, 2.0 cents/gallon fuel oil tax, 14.5 cents/1000 cubic feet of natural gas, for example.

SOURCES: Staff calculations based on 1983 energy consumption by state from U.S. Department of Energy, Energy Information Administration, State Energy Data Report: Consumption Estimates, 1960-1983 (Washington, D.C., May 1985, passim). Oil import ratio to domestic production and price estimates based on U.S. Department of Energy, Energy Information Administration, Monthly Energy Review, September 1985 (Washington, D.C., December 23, 1985). Windfall column calculated based on U.S. Department of Energy, Energy Information Administration, Petroleum Supply Annual, 1984, Volume 1 (Washington, D.C., June 1985) p. 31.

# V. THE BUDGET AND THE REGION

The following analysis of the president's budget for fiscal 1987, prepared by the staffs of the Northeast-Midwest Congressional Coalition, the Northeast-Midwest Senate Coalition, and the Northeast-Midwest Institute, focuses on federal programs that have a significant impact on the region's states and their more than 100 million residents. It begins with a section entitled "Economic Outlook," designed to establish a context in which the budget may be viewed. That is followed by a "Budget Overview," which outlines the major features of the federal budget. Accompanying charts and tables provide greater detail on these sections. The analysis of the budget proposal itself is organized into six major sections, each encompassing a cluster of related areas of federal spending. Each section begins with a summary, followed by separate subsections on federal programs or activities. The sections and subsections are as follows:

- Community and Economic Development
    - -- Community Development Block Grants
    - -- Urban Development Action Grants
    - -- Economic Development Administration
    - -- Small Business Administration
    - -- General Revenue Sharing
    - -- Assisted Housing
    - -- Rural Development
- Human Resources
    - -- Employment and Training
    - -- Unemployment Insurance
    - -- Education
- Natural and Physical Resources
    - -- Water Resources
    - -- Environmental Protection
    - -- Agriculture
    - -- Transportation
- Energy
    - -- Energy Conservation
    - -- Low-Income Home Energy Assistance
    - -- Energy Supply Research and Development
    - -- Energy Information Administration
    - -- Electricity
- Defense

- Economic Competitiveness
  - Research and Development
  - Trade

A budget overview for each section gives the actual budget authority and outlays for the programs under discussion for fiscal 1981 and 1985, and compares them with funding levels for fiscal 1986 and 1987 proposed by President Reagan. The budget authority and outlay figures for fiscal 1986 in all applicable cases reflect the sequestration order scheduled to take effect on March 1 under the Gramm-Rudman-Hollings deficit reduction law.

Tables detailing the regional and state-by-state distribution of program funds for the most recent year available, along with tables providing other relevant statistical information, are grouped at the end of each section.

This report is the second in this year's budget series. The first, The Step-by-Step Guide to Understanding the Federal Budget, was published and distributed in January.

## ECONOMIC OUTLOOK

President Reagan's budget proposal for fiscal 1987 assumes that the economic expansion that began in December 1982 will continue, and that the economy will enjoy an "acceleration of growth" in 1986. The administration believes this expansion is "sustainable" and is, in fact, gathering momentum. It points for evidence to production, employment, and income data from late 1985.

Many prominent national forecasters are less sanguine about the rate of expansion of the economy. They note several complicating factors, which, they argue, make the current economic cycle difficult to predict: the high volume of imports, declining commodity prices, a weak farm sector, and enormous federal budget deficits. Nevertheless, these same forecasters are calling for a fourth year of growth, but at a slower rate than assumed by the administration.

High interest rates and the overvalued dollar are likely to hold back the economy during much of 1986. While both interest rates and the dollar have been declining recently, they remain too high to permit much more rapid growth. Furthermore, the lags associated with changes in interest and exchange rates are relatively long. Therefore, the full impact of the declines, and any still to come, is unlikely to be felt until late in 1986 at the earliest. As a result, interest-sensitive sectors of the economy, especially housing, inventories, and capital spending, probably will remain fairly sluggish this year. Moreover, little improvement in the trade deficit can be expected in 1986 because the decline in the dollar thus far has not been sufficient to alter relative competitiveness significantly.

Gross National Product. The president's budget proposal forecasts an increase of 3.4 percent in the nation's output in 1986. This would be slower than the average growth in previous post-war recoveries, but greater than in 1985, when the economy grew by approximately 2.3 percent. The administration considers the projected rate to be "consistent with a return to healthy expansion following a year and a half of relatively sluggish growth." Most forecasters are less optimistic than the administration and expect steady but slow (approximately 2 percent) growth during 1986.

**Projected Increase in Real Gross National Product**
(percent change, calendar years)

| | 1986 | 1987 |
|---|---|---|
| President's 1987 Budget | 3.4 | 4.0 |
| Data Resources, Inc. | 2.1 | 3.0 |
| Chase Econometrics | 2.2 | 2.7 |

Interest Rates and Inflation. High interest rates and the recession of 1981-1982 have forced a dramatic slowdown in inflation since 1981. As measured by the consumer price index, inflation dropped from 13.5 percent in 1980 to 3.0 percent in 1983. Inflation rose to 3.4 percent in 1984, and remained close to 3.5 percent in 1985. The president's budget proposal projects inflation at 3.5 percent in 1986, and 4.1 percent in 1987. Most economists agree that inflation will remain under control this year.

The administration expects the recent drop in long-term interest rates to continue during 1986, but at a slower pace because of stronger economic activity. The budget request projects that the downward trend will accelerate in 1987.

Many economists have expected the Federal Reserve to nudge interest rates lower. However, the Fed will not characterize its policy until late February, when it issues new targets for the 1986 monetary aggregates. Any changes likely will be modest.

Economists generally see the greatest threats to the economy's well-being coming from Washington. The biggest variables in the 1986 forecast are the assumptions relating to the implementation of Gramm-Rudman-Hollings. Serious attempts at deficit reduction are applauded by many economists. Lower Treasury borrowing requirements and fading inflationary expectations, they argue, could send interest rates down enough to ensure brisk growth for the next two years.

Lower interest rates are critical to the economic well-being of the Northeast and Midwest. The industrialized states of the region are particularly vulnerable to high interest rates because their economies depend so much on industrial borrowing to invest in modern facilities, agricultural borrowing to keep the region's farms operating, and nationwide consumer borrowing to pay for "big ticket" manufactured products such as cars, houses, and appliances.

**Projected Rise in the Consumer Price Index**
(percent change, calendar years)

| | 1986 | 1987 |
|---|---|---|
| President's 1987 Budget | 3.5 | 4.1 |
| Data Resources, Inc. | 3.3 | 3.7 |
| Chase Econometrics | 3.6 | 4.1 |

Unemployment. The national unemployment rate has ranged between approximately 7 percent and 7.5 percent since May 1984, instead of rising toward 8 percent as some had predicted. In January 1986, the civilian unemployment rate actually dropped to 6.7 percent, the lowest figure in almost six years.

The administration expects "a moderate decline in the unemployment rate during 1986 and 1987, consistent with the pace of economic growth." Specifically, it projects an average unemployment rate of 6.7 percent in 1986 and 6.5 percent in 1987.

Other forecasters generally see unemployment inching back up as high as 7.5 percent during the first half of 1986 as a result of slow growth. Then, as GNP accelerates, they estimate that productivity will pick up, with unemployment rising gradually to as high as 8 percent by the middle of 1987. They predict that manufacturing employment, heavily concentrated in the region, will drop slightly during the first half of 1986 before turning up again, and that service employment will increase steadily over the next 18 months, despite overall slow growth.

**Projected Unemployment Rate**
(annual average percentage)

| | 1986 | 1987 |
|---|---|---|
| President's 1987 Budget | 6.7 | 6.5 |
| Data Resources, Inc. | 7.2 | 7.3 |
| Chase Econometrics | 7.2 | 7.1 |

## BUDGET OVERVIEW

The president's fiscal 1987 budget proposal is designed to meet the $144 billion deficit ceiling mandated by Gramm-Rudman-Hollings. In meeting this target and thus seeking to avoid automatic sequestration, the president proposed significant cuts in domestic spending, a 12 percent increase in defense spending over the Pentagon's fiscal 1986 budget authority (assuming sequestration), and no new major revenue-raising measures.

Total budget authority in fiscal 1987 would rise by 4.1 percent to $1,102 billion, outlays would increase by 1.4 percent to $994 billion, and revenues would go up by 9.4 percent to $850 billion under the president's plan.

**Budget Summary**
(in billions of dollars)

| | 1981 | 1985 | 1986 | 1987 |
|---|---|---|---|---|
| Budget Authority | 749.1 | 1074.1 | 1058.7 | 1102.0 |
| Budget Outlays | 678.2 | 946.3 | 979.9 | 994.0 |
| Budget Receipts | 599.3 | 734.1 | 777.1 | 850.4 |
| Deficit | -78.9 | -212.3 | -202.8 | -143.6 |
| Gramm-Rudman-Hollings Deficit Targets | -- | -- | -171.9 | -144.0 |
| Difference | -- | -- | 30.9 | -0.4 |

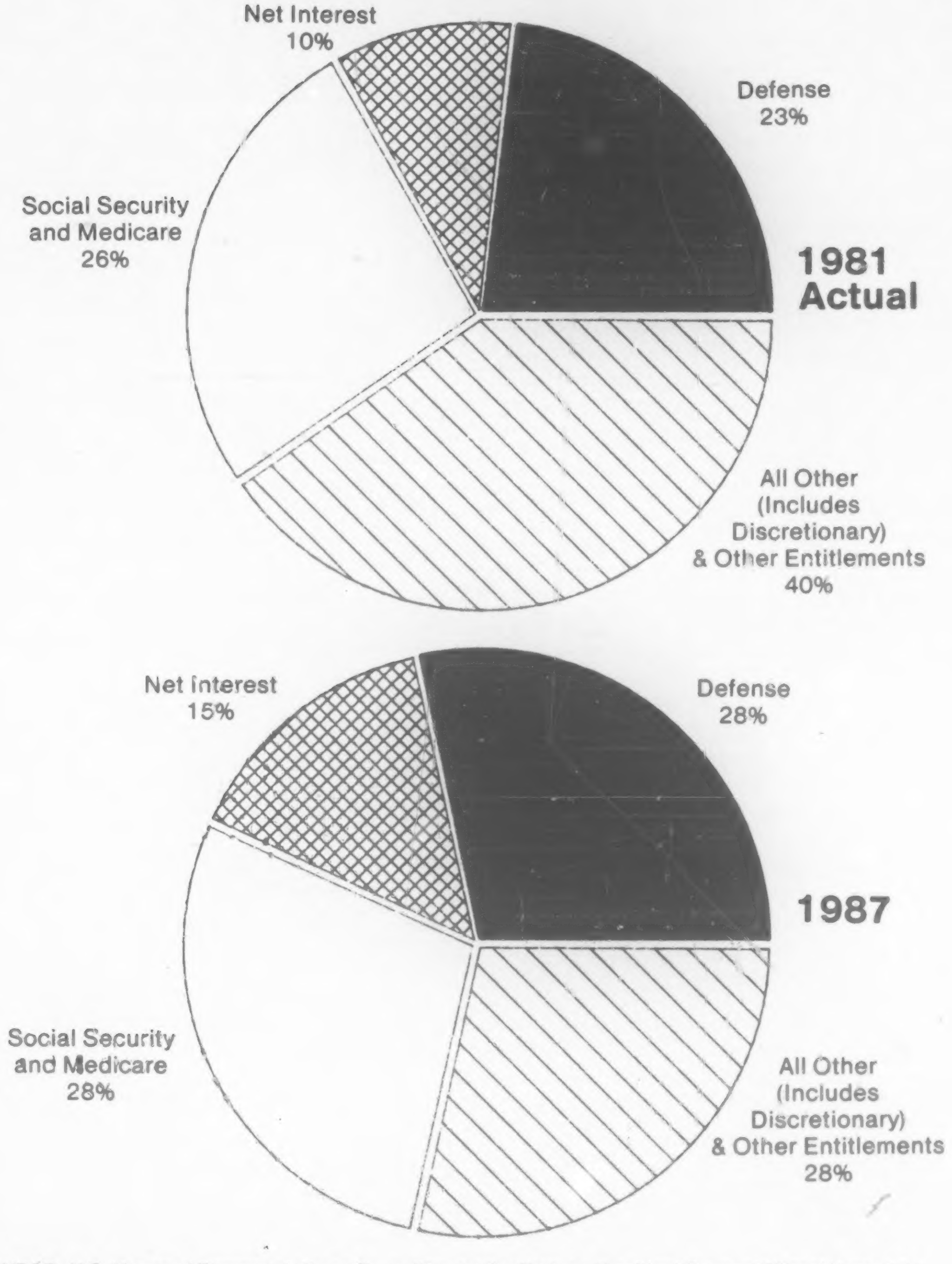
As the pie chart on the next page and the table below show, President Reagan's sixth budget submission to Congress embodies his philosophy of government: it would expand the military and shrink spending for domestic programs. In fiscal 1987, more than 28 cents of each budget dollar would be earmarked for

**Budget Outlays by Major Program Area**
(in billions of dollars)

| | 1981 | 1985 | 1986 | 1987 |
|---|---|---|---|---|
| National Defense | 157.5 | 252.7 | 265.8 | 282.2 |
| Direct Payments to Individuals | 323.4 | 425.6 | 445.9 | 458.8 |
| -- Social Security and Medicare | 178.7 | 254.5 | 268.7 | 282.4 |
| -- Other | 144.7 | 171.1 | 177.1 | 176.4 |
| Non-Defense Discretionary | 156.6 | 171.3 | 161.3 | 143.1 |
| Undistributed Offsetting Receipts | -28.0 | -32.8 | -35.8 | -38.1 |
| Net Interest | 68.7 | 129.4 | 142.7 | 148.0 |
| **Total** | 678.2 | 946.3 | 979.9 | 994.0 |

# President's Budget Fiscal 1987 Compared to Fiscal 1981

(outlays in billions of dollars)



SOURCE: U.S. House of Representatives, Committee on the Budget, *President Reagan's Fiscal Year 1987 Budget: A Summary and Analysis*, No. CP-5 (Washington, D.C.: U.S. Government Printing Office, 1986), p. 6.

defense, with 46 cents devoted to entitlements -- 28 cents of which would go for Social Security and Medicare -- and 11 cents for non-defense discretionary programs (including undistributed offsetting receipts). By comparison, in fiscal 1981, 23 cents went for defense spending, with 48 cents going for entitlements -- 26 cents for Social Security and Medicare -- and 19 cents for non-defense discretionary spending.

The budget proposal would reduce the president's projected "current services" deficit by $38.2 billion in 1987, with $31.9 billion coming from outlay reductions and $6.3 billion resulting from new revenues.

Each year, the administration prepares "current services" baseline estimates of the level of spending, revenues, and deficit that would occur if existing spending and tax laws simply were extrapolated into the future. When the president discusses spending cuts or tax increases, he is comparing his fiscal 1987 budget proposals with the fiscal 1987 "current services" baseline.

The president has used different methodologies to develop the domestic and defense "current services" baselines. For non-defense discretionary appropriated programs, the "current services" baseline incorporates the reductions assumed by the sequestration order mandated by Gramm-Rudman-Hollings and then increases the resulting levels for these programs by the anticipated rate of inflation. For entitlement programs, the operation of current law (assuming sequestration), estimates of caseload, economic conditions, and other technical considerations are used to reach current services estimates. For defense programs, the administration's current services estimate is based on the level of budget authority for fiscal 1987 contained in the fiscal 1986 budget resolution adopted by Congress last year, before cuts were made in the appropriations process and before the first cutback assumed under Gramm-Rudman-Hollings. This means that the president's defense baseline is almost $23 billion in budget authority higher than an "inflation only" baseline would be.

As provided under Gramm-Rudman-Hollings, the operations of the Social Security trust funds are taken "off-budget" beginning in 1986. However, income and outlays of the fund are considered in calculating the federal deficit. With Social Security revenues currently exceeding payments, the inclusion of Social Security has the net effect of lowering the budget deficit. The president proposes no reduction in Social Security benefits, but is requesting changes in program administration. The budget also assumes a cost-of-living adjustment of 3.7 percent to be paid beginning in January 1987.

## Federal Credit Budget

The federal credit budget has been included officially as part of the president's budget submission to Congress, establishing for the first time statutory limits on the amount of federal direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments.

As the table on the next page shows, the president's budget proposes to terminate, phase out, or reduce significantly several direct loan and loan guarantee programs as part of a major initiative to reduce the federal government's influence in national credit markets. This effort includes proposals to terminate Small Business Administration (SBA) direct loans and loan guarantees, Export-Import Bank direct loans, the USDA rural housing loan

## Federal Credit Activities
(in billions of dollars)

| | | New Direct Loan Obligations[1] | | | New Loan Guarantee Commitments[2] | | |
|---|---|---|---|---|---|---|---|
| Function | | 1985 | 1986 | 1987 | 1985 | 1986 | 1987 |
| 050 | National Defense | 1.5 | 0.5 | 0 | 0 | 0 | 0 |
| 150 | International Affairs | 8.0 | 8.5 | 8.1 | 8.2 | 11.8 | 12.2 |
| 270 | Energy | 4.1 | 3.6 | 2.5 | 0.1 | 0 | 0 |
| 300 | Natural Resources and Environment | 0.1 | 0.1 | * | 0 | 0 | 0 |
| 350 | Agriculture | 15.2 | 19.8 | 13.0 | 3.8 | 7.1 | 5.5 |
| 370 | Commerce and Housing | 5.8 | 3.7 | 1.8 | 51.2 | 52.7 | 37.5 |
| 400 | Transportation | 0.4 | 0.6 | 0.2 | * | 0.1 | 0 |
| 450 | Community and Regional Development | 1.3 | 1.0 | 0.4 | 0.1 | 0.2 | * |
| 500 | Education, Training, Employment, and Social Services | 1.3 | 1.3 | 1.6 | 8.9 | 9.3 | 9.8 |
| 550 | Health | * | * | * | 0.3 | 0.4 | 0.1 |
| 600 | Income Security | 14.1 | 1.5 | 1.7 | 0 | 0 | 0 |
| 700 | Veterans Benefits and Services | 1.1 | 1.1 | 1.2 | 12.1 | 12.3 | 14.7 |
| **Total** | | **52.8** | **41.6** | **30.6** | **84.7** | **93.8** | **79.8** |

*Less than $50 million

[1] Includes loans with an agency guarantee that are disbursed by the Federal Financing Bank (FFB).

[2] Excludes commitments to guarantee loans made by other federal agencies and secondary loan guarantee commitments.

Note: This table shows actual levels for fiscal 1985 and estimated levels for fiscal 1986 and 1987.

program, the HUD Section 202 housing for the elderly and handicapped loan program, and the Farmers Home Administration (FmHA) Agricultural Credit Insurance Fund.

## Budget Authority

The president has requested $1,102 billion in total budget authority for fiscal 1987, an increase of 4.1 percent over fiscal 1986. This increase is largely the result of requests for additional defense spending (12 percent increase), Social Security obligations (14.3 percent increase), and net interest (3.7 percent increase).

The president has requested deep cuts in budget authority in many non-defense discretionary programs. These cuts reflect the president's stated intent to phase out or eliminate numerous domestic spending programs, including Urban Development Action Grants, the Economic Development Administration, Amtrak, General Revenue Sharing (GRS), and virtually all federal energy conservation and public housing programs. Funding for Agriculture (Function 350) would decrease by 30.2 percent, for Community and Regional Development (Function 450) by 44.1 percent, for Transportation (Function 400) by 18.1 percent, for Natural Resources and Environment (Function 300) by 9.2 percent, and for Education, Training, Employment, and Social Services (Function 500) by 5.6 percent.

Proposals to scale down or terminate many federally administered and guaranteed loan programs under such agencies as SBA, FmHA, and the Export-Import Bank, as well as the Guaranteed Student Loan program, also contribute to the overall small increase in new budget authority for fiscal 1987, as do program reforms and budget freezes in such means-tested entitlement programs as Aid to Families with Dependent Children, food stamps, and supplemental security income.

## Budget Outlays

Budget outlays -- the amount requested for expenditure in the current fiscal year -- often vary significantly from budget authority, which contains program funds for both present and subsequent years. Accordingly, outlays often reflect budget authority decisions made in previous years. A substantial decrease in budget authority, particularly for multi-year "slow-spending" programs such as mass transit, community development, and housing, will not be reflected fully in outlays for several years. For example, the 1987 request asks an increase in authority of 4.1 percent from fiscal 1986, but proposed outlays would rise by only 1.4 percent.

Requested budget outlays total $994 billion, a 1.4 percent increase from fiscal 1986. As with budget authority, most budget functions would receive major cuts in outlays, with only National Defense (6.2 percent), Net Interest (3.71 percent), and Social Security (6.5 percent) scheduled for significant increases. Most other functions would see sizable cuts in outlays: Commerce and Housing Credit (370) down by 63.2 percent, from $3.8 billion to $1.4 billion; Agriculture (350) down by 24.7 percent, from $25.8 billion to $19.5 billion; and General Purpose Fiscal Assistance (850), made up largely of GRS, down by 72.6 percent, from $6.2 billion to $1.7 billion

## Budget Authority
(in billions of dollars)

| | | | | | Percent Change 1986-1987 | |
|---|---|---|---|---|---|---|
| | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
| 050 National Defense | 180.0 | 294.7 | 286.1 | 320.3 | 11.95 | 7.54 |
| 150 International Affairs | 27.4 | 26.5 | 20.8 | 22.6 | 8.65 | 4.37 |
| 250 General Science/Space/ Technology | 6.6 | 9.2 | 8.8 | 9.5 | 7.95 | 3.70 |
| 270 Energy | 15.1 | 8.8 | 5.8 | 4.4 | -24.14 | -27.13 |
| 300 Natural Resources and Environment | 11.2 | 13.3 | 12.0 | 10.9 | -9.17 | -12.74 |
| 350 Agriculture | 13.4 | 27.5 | 28.1 | 19.6 | -30.25 | -33.00 |
| 370 Commerce and Housing Credit | 12.8 | 12.1 | 8.7 | 10.2 | 17.24 | 12.62 |
| 400 Transportation | 27.0 | 29.6 | 27.6 | 22.6 | -18.12 | -21.34 |
| 450 Community and Regional Development | 10.0 | 8.2 | 6.8 | 3.8 | -44.12 | -46.32 |
| 500 Education, Training, Employment, and Social Services | 32.9 | 32.4 | 28.6 | 27.0 | -5.59 | -9.31 |
| 550 Health | 27.0 | 33.6 | 35.4 | 35.3 | -0.28 | -4.21 |
| 570 Medicare | 42.0 | 71.7 | 86.7 | 82.3 | -5.07 | -8.81 |
| 600 Income Security | 129.7 | 164.1 | 151.4 | 153.3 | 1.25 | -2.73 |
| 650 Social Security | 134.6 | 199.5 | 199.4 | 227.9 | 14.29 | 9.79 |
| 700 Veterans Benefits and Services | 23.2 | 27.4 | 27.4 | 26.7 | -2.55 | -6.39 |
| 750 Administration of Justice | 4.4 | 6.7 | 6.6 | 7.1 | 7.58 | 3.34 |
| 800 General Government | 5.1 | 6.0 | 6.4 | 6.2 | -3.13 | -6.94 |
| 850 General Purpose Fiscal Assistance | 6.2 | 6.3 | 5.2 | 1.7 | -67.31 | -68.60 |
| 900 Interest | 68.7 | 129.5 | 142.7 | 148.0 | 3.71 | -0.37 |
| 920 Allowances | 0.0 | 0.0 | 0.0 | 0.8 | 0.00 | 0.00 |
| 950 Undistributed Offsetting Revenues | 28.0 | -32.8 | -35.8 | -38.1 | 6.42 | 2.23 |
| TOTAL | 749.1 | 1,074.1 | 1,058.7 | 1,102.0 | 4.08 | -0.02 |

## Budget Outlays
(in billions of dollars)

|  | 1981 | 1985 | 1986 | 1987 | Percent Change 1986-1987 Nominal | Percent Change 1986-1987 Adjusted for Inflation |
|---|---|---|---|---|---|---|
| 050 National Defense | 157.5 | 252.7 | 265.8 | 282.2 | 6.17 | 1.99 |
| 150 International Affairs | 13.1 | 16.2 | 17.1 | 18.6 | 8.77 | 4.49 |
| 250 General Science/Space/ Technology | 6.5 | 8.6 | 8.9 | 9.2 | 3.37 | -0.70 |
| 270 Energy | 15.2 | 5.7 | 4.4 | 4.0 | -9.09 | -12.67 |
| 300 Natural Resources and Environment | 13.6 | 13.4 | 12.9 | 12.0 | -6.98 | -10.64 |
| 350 Agriculture | 11.3 | 25.6 | 25.9 | 19.5 | -24.71 | -27.68 |
| 370 Commerce and Housing Credit | 8.2 | 4.2 | 3.8 | 1.4 | -63.16 | -64.61 |
| 400 Transportation | 23.4 | 25.8 | 27.1 | 25.5 | -5.90 | -9.61 |
| 450 Community and Regional Development | 10.6 | 7.7 | 7.9 | 6.5 | -17.72 | -20.96 |
| 500 Education, Training, Employment, and Social Services | 33.7 | 29.3 | 30.7 | 27.4 | -10.75 | -14.26 |
| 550 Health | 26.9 | 33.5 | 35.7 | 35.0 | -1.96 | -5.82 |
| 570 Medicare | 39.1 | 65.8 | 68.7 | 70.2 | 2.18 | -1.84 |
| 600 Income Security | 99.7 | 128.2 | 118.1 | 118.4 | 0.25 | -3.69 |
| 650 Social Security | 139.6 | 188.6 | 200.1 | 212.2 | 6.05 | 1.87 |
| 700 Veterans Benefits and Services | 23.0 | 26.4 | 26.6 | 26.4 | -0.75 | -4.66 |
| 750 Administration of Justice | 4.8 | 6.3 | 6.8 | 6.9 | 1.47 | -2.53 |
| 800 General Government | 4.6 | 5.2 | 6.3 | 6.1 | -3.17 | -6.99 |
| 850 General Purpose Fiscal Assistance | 6.9 | 6.4 | 6.2 | 1.7 | -72.58 | -73.66 |
| 900 Net Interest | 68.7 | 129.4 | 142.7 | 148.0 | 3.71 | -0.37 |
| 920 Allowances | 0.0 | 0.0 | 0.0 | 0.7 | -- | -- |
| 950 Undistributed Offsetting Revenues | -28.0 | -32.8 | -35.8 | -38.1 | 6.42 | 2.23 |
| TOTAL | 678.2 | 946.3 | 979.9 | 994.0 | 1.44 | -2.56 |

## State and Local Government Budgets

State and local government budgets, like the federal budget, are influenced greatly by national economic conditions. State and local governments have benefitted significantly from national economic growth over the past three years.

Nevertheless, the administration's proposed reductions or terminations of grant-in-aid programs pose a significant challenge to the stability of state and local government finances. The fiscal 1987 budget plan proposes $89.1 billion in budget authority and $99.1 billion in outlays for federal grants to state and local governments. In comparison, fiscal 1986 budget levels (assuming sequestration), would be $105.2 billion in budget authority and $108.8 billion in outlays for grants in aid.

Major proposed program terminations include GRS (including a fourth quarter fiscal 1986 rescission), UDAG, and several other urban and rural economic development assistance programs, as well as phase out of the EPA wastewater treatment grant program. In addition, large reductions are requested for the Community Development Block Grant program, in agricultural programs, and in mass transit assistance.

## SECTION ONE: COMMUNITY AND ECONOMIC DEVELOPMENT

Federal community and economic development programs, significantly diminished in recent years, are slated for additional cuts or total elimination in the president's fiscal 1987 budget proposal. The administration is pressing for numerous changes that if enacted, would result in a substantially reduced federal role in local community and economic development activities.

The proposal reflects the administration's belief that economic development assistance ought to be a state and local function. It seeks only $3.8 billion in new budget authority in fiscal 1987 for community and regional development, a 44 percent reduction from the fiscal 1986 level of $6.8 billion (assuming sequestration) and a 54 percent reduction from the fiscal 1985 level of $8.2 billion. In comparison, the fiscal 1981 budget requested $8.14 billion for development activities -- more than double the level sought this year.

The administration again has requested the termination of the Urban Development Action Grant (UDAG) program, the Economic Development Administration (EDA), the direct loan and loan guarantee programs of the Small Business Administration (SBA), general revenue sharing (GRS), and the Department of Housing and Urban Development (HUD) Section 108 loan guarantee program. To help reach the Gramm-Rudman-Hollings deficit reduction target of $144 billion, the administration proposes a reduction of the HUD Community Development Block Grant (CDBG) program in fiscal 1986 by $500 million to $2.49 billion, and would seek slightly more in fiscal 1987.

Housing programs would experience deep cuts under the president's proposal. No new budget authority is requested for assisted housing programs in fiscal 1987. All new activities would be funded from a $2.3 billion deferral of fiscal 1986 authority. Moreover, the administration proposal would pare new fiscal 1986 budget authority further to $2.8 billion through a rescission of $4.4 billion and assumed sequestration cuts of $428.5 million. Combined, these cuts would add up to a 74 percent reduction from the fiscal 1986 post-sequestration level of $10.8 billion. The result would be an enormous decrease in assisted housing activity in the Northeast and Midwest.

### A. Community Development Block Grants (CDBG)

The administration has requested $2.125 billion in new budget authority for CDBG in fiscal 1987, and deferral of $500 million from the $3.12 billion authorized for fiscal 1986. In addition, sequestration could reduce 1986 budget authority by $134 million. As a result, CDBG resources for fiscal 1986 would fall to $2.49 billion, a 20 percent reduction. This would be the lowest funding level for this program since fiscal 1976. The administration has proposed termination of the Section 108 loan guarantee program, which enables many older communities to leverage limited CDBG resources for major inner-city redevelopment projects. Section 108 carries a $222.5 million loan limit for fiscal 1986. The president also has asked for two changes in legislation affecting the distribution of CDBG funds.

## BUDGET SUMMARY

(in millions of dollars)

|  |  |  |  |  | Percent Change 1986-1987 |  |
|---|---|---|---|---|---|---|
|  | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
| **Community Development** |  |  |  |  |  |  |
| **Community Development Block Grants** |  |  |  |  |  |  |
| Budget Authority | 3,694 | 3,472 | 2,990[1] | 2,125 | -28.93 | -31.73 |
| Outlays | 4,042 | 3,817 | 3,575 | 3,099 | -13.31 | -16.73 |
| **Urban Development Action Grants** |  |  |  |  |  |  |
| Budget Authoity | 677 | 440 | 109[2] | 0 | -100.00 | -100.00 |
| Outlays | 388 | 497 | 488[2] | 413[2] | -15.37 | -18.70 |
| **Section 108** |  |  |  |  |  |  |
| Budget Authority | NA | 103 | 108 | 73 | -32.41 | -35.07 |
| Outlays | NA | 81 | 46 | 0 | -100.00 | -100.00 |
| Limit on Loan Obligations | 250 | 225 | 50[3] | 0 | -100.00 | -100.00 |
| **Economic Development Administration** |  |  |  |  |  |  |
| **Economic Development Administration Programs** |  |  |  |  |  |  |
| Budget Authority | 437 | 231 | 34[4] | 0 | -100.00 | -100.00 |
| Outlays | 502 | 263 | 230[4] | 183[4] | 20.40 | 23.53 |
| **Appalachain Regional Commission** |  |  |  |  |  |  |
| Budget Authority | 299 | 151 | 36[5] | 0 | -100.00 | -100.00 |
| Outlays | 337 | 204 | 154[5] | 124[5] | -19.44 | -22.62 |

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[1] Includes a proposal deferral of $500 million in budget authority in fiscal 1986.

[2] Includes a proposed rescission of $206 million in budget authority and $11 million in outlays in fiscal 1986, and $44 million in outlays in fiscal 1987.

[3] Includes a proposed $163 million reduction in loan authority limit for fiscal 1986.

[4] Includes a rescission of $101.3 million in budget authority and $10.1 million in outlays in fiscal 1986, and $20.3 million in outlays in fiscal 1987; includes a transfer of $40 million in budget authority and $4 million in outlays in fiscal 1986 to close out proposed discontinued loan programs.

[5] Includes a rescission of $81 million in budget authority and $4.5 million in outlays in fiscal 1986, and $21.3 million in outlays in fiscal 1987.

## Small Business Administration

| | | | | | | |
|---|---|---|---|---|---|---|
| **Business Loan and Investment Fund Program** | | | | | | |
| Budget Authority | 609 | 512 | 162 | 0[6] | -100.00 | -100.00 |
| Outlays | 574 | 275 | 418 | 0[6] | -100.00 | -100.00 |
| **Guaranteed Loan Commitment Levels** | 3,061 | 2,933 | 3,380 | 0 | -100.00 | -100.00 |

## General Revenue Sharing

| | | | | | | |
|---|---|---|---|---|---|---|
| **General Revenue Sharing** | | | | | | |
| Budget Authority | 4,567 | 4,567 | 3,425[7] | 0 | -100.00 | -100.00 |
| Outlays | 5,134 | 4,584 | 4,438 | 0[7] | -100.00 | -100.00 |

## Housing

| | | | | | | |
|---|---|---|---|---|---|---|
| **Operating Subsidies for Public Housing** | | | | | | |
| Budget Authority | 1,071 | 1,402 | 1,159 | 1,172 | 1.12 | -2.86 |
| Outlays | 929 | 1,205 | 1,337 | 1,297 | -2.99 | -6.81 |
| Obligations | 1,067 | 1,231 | 1,360 | 1,285 | -5.51 | -9.24 |
| **Assisted Housing** | | | | | | |
| Budget Authority | 24,839 | 10,760 | 5,124[8] | 0 | -100.00 | -100.00 |
| Outlays | 5,747 | 9,994 | 9,921[8] | 8,937[8] | -9.92 | -13.47 |
| **Elderly/Handicapped** | | | | | | |
| Budget Authority | 797 | 504 | 0 | 0 | 0.00 | 0.00 |
| Outlays | 817 | 501 | 490[9] | 385[9] | -21.43 | -24.52 |
| **Housing Development Grants** | | | | | | |
| Budget Authority | NA[10] | 0 | 0[11] | 0 | 0.00 | 0.00 |
| Outlays | NA[10] | 1 | 103[11] | 105 | 1.94 | -2.07 |
| **Rental Rehabilitation** | | | | | | |
| Budget Authority | NA[10] | 0 | 0[12] | 0 | 0.00 | 0.00 |
| Outlays | NA[10] | 14 | 140 | 136 | -2.86 | -6.68 |

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[6] Includes a proposed transfer of $2.5 billion in budget authority and $2.6 billion in outlays for fiscal 1987 to the Department of Treasury for subsequent liquidation of SBA portfolio.

[7] Includes a rescission of $760 million in budget authority for fiscal 1986 and $760 million in outlays for fiscal 1987.

[8] Includes a proposed rescission of $4.3 billion in budget authority and $0.5 million in outlays in fiscal 1986 and $8 million in 1987.

[9] Includes a proposal to cut budget (loan) authority by $504 million and outlays by $73 million in 1986, and outlays by $113 million in 1987.

[10] Program did not exist in 1981.

[11] Includes a proposed rescission of $72 million in budget authority and $7 million in outlays in fiscal 1986, and $36 million in outlays in fiscal 1987.

[12] Includes a proposed rescission of $72 million in authority in fiscal 1986.

The CDBG program provides assistance for local community development activities targeted to low- and moderate-income families and distressed neighborhoods. Entitlement jurisdictions -- generally, those with populations exceeding 50,000 -- receive direct formula grants; states receive a formula-based allocation with which they operate discretionary programs for their small communities.

In fiscal 1984, entitlement cities spent most of their CDBG resources -- approximately 40 percent -- for public facilities and improvements. Housing-related activities absorbed 34 percent, with single-family housing rehabilitation accounting for half that amount. Other economic development activities claimed 7 percent. States awarded 37 percent of their grants to communities with populations under 2,500 and 19 percent to jurisdictions larger than 10,000 persons. Nearly 49 percent of the awards were for public works projects; 18 percent went for other economic development activities. Only 16 percent were housing-related.

CDBG authorization, renewed in 1983 for three years, expires this fiscal year. CDBG was not subject to significant legislative activity in 1985. However, the administration again seeks a change in the percentage allocation to entitlement cities and small communities that would reduce the portion of funds going to large cities and urban counties from the current 70 percent to 65 percent. The share for small cities would rise from 30 percent to 35 percent. This change would shift $106 million of the proposed 1987 block grant amount. It was devised to offset part of the proposed elimination of nearly $1 billion worth of Farmers Home Administration (FmHA) development and housing programs.

The administration budget request would earmark $1.71 billion for large cities -- the smallest entitlement allocation ever -- and $919 million for small communities in fiscal 1987. Actual amounts in fiscal 1985 were $2.33 billion and $967 million; the estimated levels for fiscal 1986, based on existing law before the proposed deferral, are $2.01 billion and $897 million. If the proposed allocation revision is adopted, entitlement cities would divide a 27 percent smaller pot in fiscal 1987 than was available in fiscal 1985. (See the table at the end of this section for CDBG and Section 108 allocations for fiscal 1985.)

A second CDBG modification, offered without a specific legislative proposal, would reduce the assistance provided to less-needy CDBG recipients by establishing new threshhold criteria for entitlement communities. Without such a change, a record 827 communities would share the entitlement portion in fiscal 1987, an-increase of one-third since CDBG began. In view of the considerable shrinkage in the program, an effort to minimize the adverse effects of reduced resources is needed. Later this year, the administration will "propose to reform the process through which CDBG grants are distributed." A HUD-developed formula change, which this language suggests, could become a significant issue in program reauthorization this year, and could direct the distribution of funds away from the region's cities.

CDBG funds now are distributed according to a dual formula that takes into account the very different problems of growth and decline. The original 1974 formula was based on three factors: poverty population (50 percent); population (25 percent); and overcrowding (25 percent). A second formula was added in 1977 to take into account the relative needs of older urban centers. This so-called "B" formula also uses three elements: poverty (30 percent); population growth lag (20 percent); and pre-1940 housing (50 percent). Communities receive the higher of the allocations under the two formulas.

Section 108 Loan Guarantees. The administration's request proposes to end the Section 108 program in fiscal 1987. Under the program, HUD is authorized to guarantee loan obligations of communities to finance acquisition of real property, and to rehabilitate publicly owned real property. More than half of Section 108 assisted projects are situated in central business districts, typically as a complementary part of a larger project.

If approved, this change would eliminate a proven tool for downtown economic development financing. Section 108 enables communities to finance large-scale projects that could not be undertaken easily using only annual entitlement programs. Loans usually are repaid within six years, with future CDBG funds pledged as security. From fiscal 1983 to fiscal 1984, guaranteed loans increased from $61 million to $87 million. Even with the imposition of service and processing fees, cities received $121 million in loans in fiscal 1985.

Congress enacted a $222.5 million guarantee limit as part of the fiscal 1986 HUD appropriation. Sequestration could reduce this limit to $212.9 million. The budget proposal contains language to reduce the 1986 guarantee ceiling further, to $50 million.

The Northeast and Midwest, which have 44 percent of the nation's population, received 51 percent of all CDBG funds in fiscal 1985 -- 39 percent of the state funds and 55 percent of the entitlement resources. Proposed program changes and funding reductions could lower entitlement grants an average of 27 percent, which would have a significant impact on cities and states in the region. New York could lose $100 million; Illinois, $51 million; Michigan, $38 million; and Massachusetts, $28 million. Many cities already have sustained cuts of 15 to 25 percent since fiscal 1981 as a result of the rapid increase in the number of entitlement cities and the introduction of 1980 census data into the funding formula. Loss of the Section 108 program as well would affect the region negatively and disproportionately. Communities in the region have claimed 62 percent of the $687 million in guarantees approved since the program began.

## B. Urban Development Action Grants (UDAG)

The administration proposes to terminate the UDAG program in fiscal 1987. In addition, it seeks to rescind all UDAG monies that remain after the January 1986 grants to large cities were awarded. This rescission would include $206 million in fiscal 1986 funds and about $14 million in unused balances from prior-year appropriations. In anticipation of a rescission, HUD suspended the application review process.

HUD has awarded nearly $109 million in the two funding cycles conducted since the beginning of fiscal 1986, for which the UDAG appropriation was $330 million. Sequestration would reduce this amount to $316 million. Even without the proposed rescission, UDAG spending would be 28 percent less than last year's $440-million level. The administration estimate of $413 million in outlays for fiscal 1987 reflects only the continued spendout of funds for projects approved in prior years.

If implemented, these changes would have a significant impact on economic revitalization efforts in many communities. Cities in the Northeast and Midwest historically have received two-thirds of all UDAG awards; elimination of the program would be felt keenly. Since 1978, the program has generated $15.5 billion in private investment and is credited with creating over 300,000 jobs in the region. In addition, UDAG has provided $500 million in assistance to the region's small cities. (See the UDAG Investment and Job Creation and UDAG Awards to Large and Small Cities tables at the end of this section.)

The administration fundamentally opposes the use of federal funds to help states and local governments influence the location choices of private businesses. However, Congress has maintained the UDAG program because of its determination to promote the revival of older urban and rural locations. Congress had decided that these areas need additional assistance to share in the benefits of national economic growth.

The UDAG program provides the financial incentives necessary to encourage private businesses to undertake major commercial, industrial, and neighborhood development projects in economically distressed communities. The UDAG program has promoted public-private partnerships and shown their effectiveness in fostering revitalization activities. It has helped to ease the financial risk of development in innercities and distressed communities and improved their attractiveness for investment. Each UDAG dollar is credited with leveraging almost six times as many private dollars. A recent HUD study indicated that in nearly two-thirds of all recipient communities, repayments of UDAG loans are recirculated for new economic development purposes, often through local revolving loan funds. The impact of the initial UDAG award thus is multiplied for greater community benefit.

In 1985, 347 projects shared $466 million in UDAG assistance. Large cities secured 189 projects, 54 percent of the total; 46 percent went to small communities. About 48 percent of the awards funded commercial activities, 35 percent went for industrial development, and the remaining 17 percent funded neighborhood projects. These 347 awards attracted $4.1 billion in private resources and were tied to $148 million in other federal, state, and local assistance. Thus, the UDAG program was responsible for channeling more than $4.7 billion in investment to distressed communities.

The UDAG program has assisted nearly 2,900 development projects in more than 1,100 cities since 1978. It is credited with generating:

- more than 503,000 permanent new jobs;
- more than $23.2 billion in private investment;
- nearly $550 million annually in local tax revenues, the majority from property levies; and
- more than 100,000 units of rehabilitated or newly constructed housing, nearly 40 percent for low- and moderate-income persons.

The administration proposes that the recently completed January 1986 large-cities grant awards be the last. In anticipation of the rescission of remaining fiscal 1986 appropriations and any future recapture of funds, HUD, in a January 27, 1986, memorandum, directed its field offices to suspend the UDAG application review process. In addition, all applications received since January 1, 1986, for the next funding cycle -- the March small-cities round --

were ordered returned "immediately." Staff work on applications held over from the November 1985 small-cities round and the January large-cities round also has stopped.

On January 30, two dozen members of the House Banking Committee from both parties wrote the administration asking that HUD continue to process and review UDAG applications, pending congressional review of HUD's actions and the rescission proposal. They stressed that if Congress subsequently directs that UDAG funding go forward, HUD then would be able to move quickly and commit funds to the approved projects, causing no undue delay for communities seeking assistance.

Sustained economic growth since 1982 has contributed to a large increase in the number of high-quality UDAG proposals submitted for consideration. By December 1983, the number of UDAG proposals satisfying all funding requirements -- so-called "fundable projects" -- began to exceed the money available. This situation was exacerbated by the new eligibility of 14 large cities and about 1,800 small communities when Congress increased program emphasis on communities with high unemployment. To determine awards, HUD put into place a statutorily based project-ranking system that weighed the three mandated criteria as follows:

- 30 percent of the composite rank is determined by project quality, including private investment, leverage, and number of jobs created;
- 30 percent is linked to applicant distress, based on per capita income, unemployment, and job lag or decline; and
- 40 percent is determined by applicant impaction, based on pre-1940 housing (50 percent of impaction), extent of poverty (30 percent), and population growth lag (20 percent).

As the gap between qualified fundable projects and available funding has widened, the new selection process increasingly has channeled awards to cities ranking highest on HUD's "distress" scale. The table below shows that grants to the Northeast have increased by more than 8 percent since December 1983. The Midwest's share of projects has slipped the most -- about 5.5 percent -- while the South and the West had smaller losses. In 1985, the Northeast received 44 percent of all UDAG awards, the Midwest 29 percent.

| | Percent Dollar Awards Pre-December 1983 | Percent Dollar Awards December 1983 to January 1986 | Net Change |
|---|---|---|---|
| Northeast | 36.6 | 44.7 | +8.1 |
| Midwest | 27.4 | 21.9 | -5.5 |
| South | 19.9 | 16.6 | -3.3 |
| West | 13.2 | 9.4 | -3.8 |
| Caribbean[1] | 2.9 | 7.4 | +4.5 |

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[1] Caribbean includes Puerto Rico and the Virgin Islands.

SOURCE: Department of Housing and Urban Development, Office of Community Planning and Development, unpublished data, February, 1986.

These dramatic funding shifts have weakened the program's political support. Some of the most distressed cities appeared to have increased their UDAG applications greatly when they realized that funding was virtually assured. The situation brought protests from less-distressed but still eligible cities with projects that would have received an award in the past, but now are uncompetitive.

Congress is considering several remedial proposals. Discussions have focused on the creation of a new two-tier system under which HUD would distribute some portion of the funds solely on the basis of project merit. Earlier work by the Banking Committees in both chambers has found its way into their budget reconciliation proposals. The House reconciliation bill, H.R. 3500, contains a two-tier UDAG selection formula that would award 60 percent of the program's funds under the existing impaction and distress factors and 40 percent based on the strength of project quality. The Senate bill, S. 1730, also contains a two-tier system; two-thirds of the awards in each round would be based on impaction and distress and one-third on project merit.

The Senate Banking Committee also has considered a 50-50 split. Committee members have proposed other project-merit scoring reforms including giving increased weight to projects that retain or "spinoff" new jobs, those addressing a community's most pressing employment needs, and those located in the applicant's most distressed neighborhoods. Another proposal would give extra points to applications from cities not receiving UDAG funds in the previous two years.

A two-tier system would make proposals from UDAG-eligible communities with a lower rank on the HUD distress scale more likely to receive an award. These areas tend to score higher on project merit criteria because they require less federal funding to attract the necessary private investment. The two-tier system would broaden funding distribution, but it is not clear that such a mechanism would continue to target funds to the areas of highest need across the nation. The two-tier methods under consideration would reduce the Northeast-Midwest region's share of UDAG awards below the level it has enjoyed in the past 24 months. In most states in the region, however, the awards would not drop more than one percent below their average participation rate from 1978 to 1983; several states would garner greater amounts than in the past.

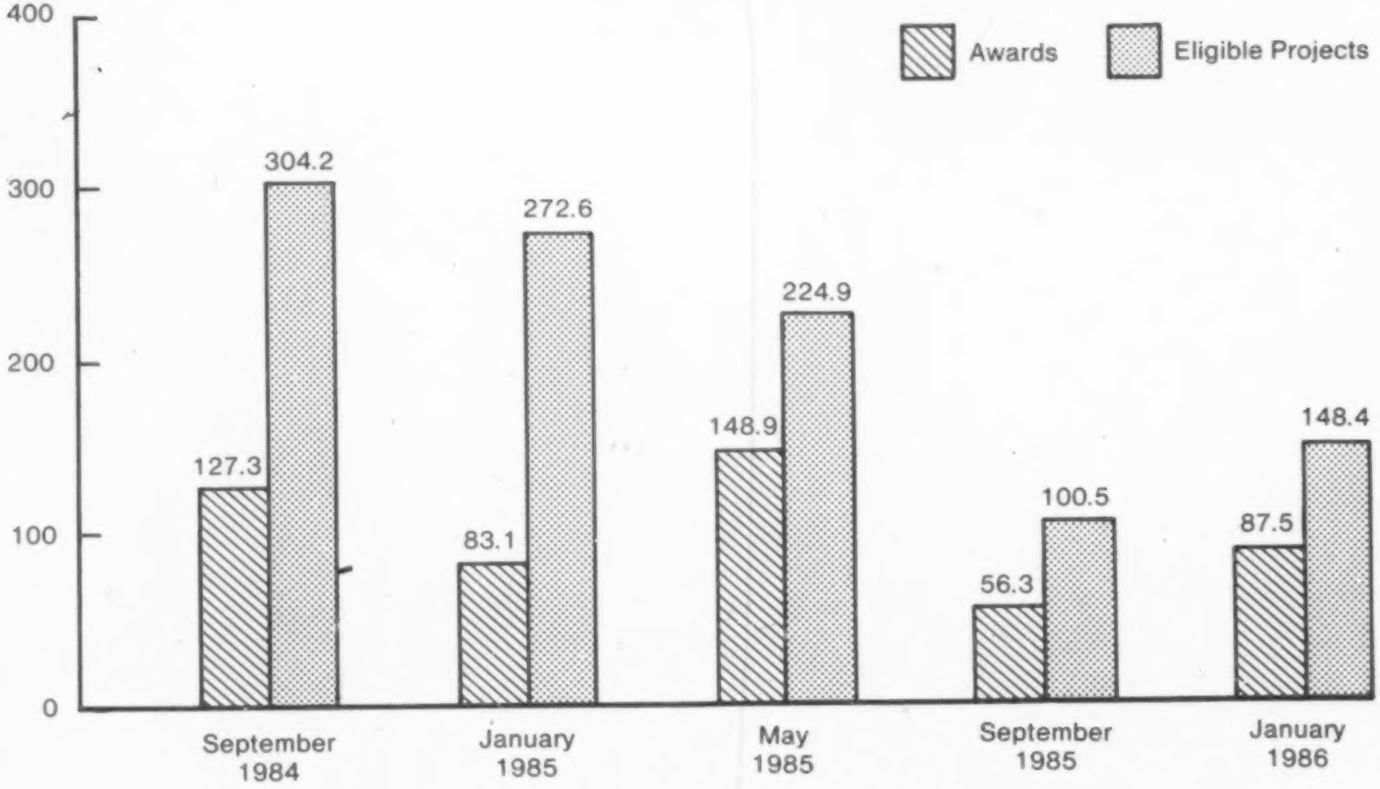
The gap between fundable projects and available funding has grown to nearly $700 million since December 1983. The accompanying chart compares awards based on available funding to eligible (fundable) projects in the five most recent funding rounds. In the course of program reauthorization this year, Congress will have to consider various strategies to ensure that the program is targeted appropriately and remains a valuable mechanism for revitalizing communities.

The UDAG program has invested nearly $2.6 billion in cities in the Northeast and Midwest. These funds helped leverage more than $15.5 billion in private investment and create or retain over 400,000 jobs. Since the program began in 1978, the region has received 68 percent of UDAG funds, attracted 67 percent of the related private investment, and received about 66 percent of the related job benefits.

The Northeast, which contains 23 percent of the nation's population, has almost 30 percent of the UDAG-eligible population. It has benefited from

# UDAG Large City Grant Award Competitions

## September 1984 Through January 1986
## Awards Based on Available Funding
## vs.
## Eligible Projects



Eligible (fundable) projects equal the sum of the dollar values of all eligible projects considered for funding. Some projects were considered in more than one competition.

UDAG's focus on areas of special need, receiving 41.6 percent of all funds through 1985. In the same period, 26.5 percent of the funds went to the Midwest, which contains 24 percent of the UDAG-eligible population. Over $512 million in UDAG assistance has gone to the region's small cities since 1978, nearly 56 percent of the national total. Regional leaders believe that UDAG has been a key contributor to promoting economic development in large cities and small communities within the Northeast and Midwest, and that the termination of the program would be a significant loss.

## C. Economic Development Administration (EDA)

The administration proposes the elimination of EDA, maintaining as it has since 1981 that EDA programs are obsolete and "no longer target assistance to those in need." It seeks no new grant or loan authority and proposes to rescind all unobligated amounts from the $183.5 million appropriated for fiscal 1986 an estimated $150 million.

Strong congressional support for EDA's assistance to local areas has allowed the agency to continue operations with a small budget. Congress provided $183.5 million for fiscal 1986; sequestration would reduce this amount to $175.6 million, a figure significantly below the 1981 level of $440 million. The administration's fiscal 1987 proposal also would eliminate the Appalachian Regional Commission (ARC) and rescind $81 million of its fiscal 1986 funds.

EDA supports programs to create jobs and spur economic growth and diversification in distressed areas. Its activities are concentrated in three programs. Title I provides development grants for construction or renovation of public facilities. Title III provides technical assistance to states, cities, small communities, and rural districts to develop and institutionalize economic development planning capacity. Title IX has two goals: reversing the effects of long-term economic deterioration, and quickly countering "sudden and severe" economic upheavals, such as plant closings.

The table below shows how EDA funds were spent in the past, and this year's approved program levels that are slated for rescission.

**EDA Programs**
(in millions of dollars)

| Program | 1981 | 1985 | 1986 |
|---|---|---|---|
| Planning Grants | 24 | 27 | 27 |
| Technical Assistance | 26 | 8 | 8 |
| Development Grants | 273 | 130 | 112 |
| Economic Adjustment | 13 | 33 | 26 |
| Direct Loans | 54 | 0 | 0 |
| Research and Evaluation | 3 | 2 | 2 |

The Northeast-Midwest region's share of EDA allocations has declined in recent years in all categories as program eligibility has broadened. In fiscal 1985, the region received 38 percent of total EDA spending, compared with 39 percent in fiscal 1984 and 52 percent in fiscal 1981. The Mid-Atlantic states claimed only 14 percent in fiscal 1985, and the Midwest only 17 percent. These proportions have stayed fairly constant in the past few years, even though many of these areas have very high unemployment rates. (See the table on EDA obligated projects for fiscal 1985 at the end of this section.)

In a 1981 evaluation, the House Subcommittee on Economic Development found that the $4.7 billion invested in EDA from 1965 to 1980 had created or saved 1.4 million jobs in the private sector at a cost of $3,357 per job. EDA funds were credited with leveraging $9 billion in private investment. These jobs and investments return about $6.5 billion in taxes and other revenues to state, local, and federal coffers annually.

Considerable bipartisan support for EDA exists in the House of Representatives. Again last year, the House passed legislation by a wide margin that would restructure EDA and make it a more effective partner in local economic development. H.R. 10, the National Development Investment Act, would provide $500 million in annual grant authority to support a variety of development and planning projects. It also would promote economic development planning and technical assistance, which has helped small cities and rural communities especially. H.R. 10 would establish tighter targeting provisions for EDA programs. It would make 41 percent of the nation's most distressed areas eligible for aid, rather than the 80 percent that qualifies now.

H.R. 10's proposed changes would increase EDA's assistance to the region. The bill targets funds more carefully to areas of need and puts special emphasis on infrastructure repair and rehabilitation efforts. The bill also promotes economic adjustment aid, local access to private capital, and employee purchases of plants -- measures that could help protect communities from the sudden losses that accompany plant shutdowns.

While the economic climate in much of the Northeast and Midwest has improved recently, parts of the region continue to endure high unemployment and sluggish economic growth. This is especially true in smaller and mid-size communities in the Mid-Atlantic and Midwest states still suffering from the shrinking and loss of heavy industry. Few of these communities have the resources necessary to deal with economic transition. They have a keen interest in preserving effective federal involvement in economic development.

## D. Small Business Administration (SBA)

The administration proposes to eliminate SBA and transfer several of its non-lending functions to the Departments of Commerce and the Treasury. It maintains that the agency duplicates services available through the private sector and other government departments. The president requests $95 million in salaries and expenses for fiscal 1987 solely to shut the agency down. He also seeks $491 million for new direct loan obligations, to be administered by the Treasury Department, to settle claims on defaulted SBA-guaranteed loans and to cover previous direct loan commitments.

Under the present proposal, SBA's entire loan and loan guarantee program would cease. The Business Loan and Investment Fund (BLIF), the Section 503 development companies program, and the Small Business Investment Companies (SBIC) program all are slated for elimination.

## Small Business Administration (SBA) Business Loan and Investment Fund

(commitment levels in millions of dollars)

| SBA Program | 1981 | 1985 | 1986 |
|---|---|---|---|
| **General Business Loans(7a)** | $3,009.9 | $2,392.7 | 2,650.0 |
| Direct | 205.1 | 77.4 | 0.0 |
| Guaranteed | 2,804.8 | 2,315.3 | 2,650.0 |
| **Handicapped Loans** | 26.7 | 24.5 | 20.0 |
| Direct | 25.0 | 23.7 | 15.0 |
| Guaranteed | 1.7 | 0.8 | 5.0 |
| **Economic Opportunity Loans** | 69.4 | 57.9 | 85.0 |
| Direct | 49.0 | 15.4 | 25.0 |
| Guaranteed | 20.4 | 42.5 | 60.0 |
| **Energy Loans** | 14.0 | 0.9 | 15.0 |
| Direct | 6.7 | 0.1 | 0.0 |
| Guaranteed | 7.3 | 0.8 | 15.0 |
| **Development Company Loans(503)** | 72.6 | 311.8 | 400.0 |
| Direct | 6.0 | 4.0 | 0.0 |
| Guaranteed | 66.6 | 307.8 | 400.0 |
| **Investment Company Loans(SBIC)** | 201.2 | 309.6 | 291.0 |
| Direct | 41.2 | 44.2 | 41.0 |
| Guaranteed | 160.0 | 265.4 | 250.0 |
| **Veterans Loans** | 0.0 | 8.6 | 20.0 |
| Direct | 0.0 | 8.6 | 20.0 |
| Guaranteed | 0.0 | 0.0 | 0.0 |
| **Total Business Loans** | 3,393.8 | 3,106.0 | 3,481.0 |
| Direct | 333.0 | 173.4 | 101.0 |
| Guaranteed | 3,060.8 | 2,932.6 | 3,380.0 |

The BLIF, authorized at $162 million in fiscal 1986 (assuming sequestration), provides direct and guaranteed loans for general business creation and expansion, energy improvements, and businesses operated by handicapped persons and veterans. SBA's loan guarantee programs, which comprise much of the agency's overall activity, also would be terminated. The largest of these, the Section 7(a) general business loan program, has an authorized guarantee limit of $2.65 billion in fiscal 1986. The Section 503 development companies program, authorized at $275 million in fiscal 1986, provides guaranteed loans to SBA-certified development companies that provide small businesses with long-term, fixed-asset financing. Several small guarantee programs (handicapped, economic opportunity, and energy) have a combined fiscal 1986 loan limit of $80 million. The SBIC program, authorized at $239 million in fiscal 1986, provides venture capital assistance to SBA-certified investment companies that make investments in emerging growth companies. (For state-by-state figures, see the table at the end of this section.)

The combined fiscal 1986 spending for these programs was set at $676 million, down from $1 billion in fiscal 1985. The administration's fiscal 1987 budget proposes the transfer of $2.82 billion to the Treasury Department for the repurchase of loans and debentures to sell and liquidate the portfolios.

The administration proposes to reorganize and reduce federal small business assistance by:

- eliminating SBA's credit assistance programs and transferring the existing portfolio to the Treasury for servicing, liquidation, and sale;
- transfering a few SBA activities to the Department of Commerce -- the Advocacy Office, the National Advisory Council, the federal procurement set-aside programs, and the retired executives volunteer counseling programs; and
- combining SBA's minority procurement assistance program with the enterprise and resource development activities of the Commerce Department's Minority Business Development Agency (MBDA).

Despite repeated administration requests for its termination, SBA has enjoyed continued congressional support. The pending Omnibus Reconciliation Act of 1985 authorizes $1.75 billion for SBA over the next three years, including $1 billion for the general business loan program. This bill also authorizes changes in the administration of SBA loan guarantee programs, one of which would allow SBA to reduce its guarantee for loans of $155,000 or more from 90 percent to a maximum of 85 percent. The bill also would authorize the sale of federally guaranteed SBIC and 503 development company debentures under the same terms and conditions established for the SBA secondary market. These terms permit the pooling of loans for secondary market sale and the issuing of trust certificates. This provision would increase the appeal of guaranteed loans to large investors and, subsequently, the availability of capital for small businesses.

Even though they are an important source of new jobs, small businesses continue to face problems obtaining credit at reasonable interest rates. Many of those businesses unable to get private financing have turned to the SBA for direct or guarantee assistance. In fact, a 1983 General Accounting Office (GAO) survey found that over 80 percent of financial institutions making SBA guaranteed loans to small businesses would not have lent the money without the SBA guarantee.

In 1985, 43 percent of all direct loan program funds were channeled into the Northeast-Midwest region. More importantly, $965 million was pumped into the region's small businesses through guarantee assistance. The region received 46 percent of the total Section 503 program guarantees, most of which helps small cities and rural communities. In addition, $200 million in venture capital was directed to the Northeast-Midwest region through SBA-sponsored investment companies. In total, the region received $1.22 billion in small business assistance in 1985.

Small businesses play a particularly important role in the economy of the Northeast-Midwest region. The older industrial states lost over 1.5 million manufacturing jobs between 1979 and 1984. Small and new businesses have replaced many of these lost jobs. Small business incubators, centers for excellence, and similar entities use public funds to promote small business start-ups and nurture their growth. Several studies have shown that small businesses generate more jobs in the Northeast and Midwest than in any other part of the country.

## E. General Revenue Sharing (GRS)

The general revenue sharing program is scheduled to expire on September 30, 1986. The administration proposes to end GRS early by eliminating the fourth and final fiscal 1986 quarterly payment of $760 million. That payment already reflects a 33 percent reduction because the fiscal 1986 appropriations bill cut revenue sharing by 8.4 percent ($381 million) and Congress specified that the entire cut be taken from the fourth quarterly payment. In addition, an assumed 4.3 percent cut under sequestration means that an additional $180 million would be pared from GRS in fiscal 1986. The timing of this cut and the quarters it would affect have not been determined as of this writing.

In fiscal 1985, local governments in the Northeast-Midwest region received $2.1 billion in revenue sharing. GRS provides the most flexible federal assistance available to local communities, allowing them to earmark the funds according to their individual needs. More importantly, many GRS-assisted activities are not eligible for funding under most other federal economic development funding programs. Over half the revenue sharing funds are used for police and fire protection, sanitation, and similar public services.

Revenue sharing also is the most comprehensive of all federal aid programs, providing funds to the entire spectrum of local governments. GRS funds are the principal source of federal dollars for many small- and medium-size communities. In fact, 85 percent of the program's recipients are local jurisdictions with populations under 10,000, most of which receive no other federal assistance. (For state-by-state figures, see the table at the end of this section.)

Under the existing program, distressed communities generally receive a greater allotment on a per capita basis. Although the interstate and intrastate award formulas have been criticized, distribution rests on the premise that the federal government -- particularly in times of tight budgets -- should target its funds to those communities with the least ability to raise revenues but that make the greatest effort to do so. Sixty-two percent of the funds go to jurisdictions with per capita incomes less than the national average, and 93 percent to these with per capita incomes lower than 125 percent of the national average.

While the GRS interstate distribution formula also includes targeting, its definitions of tax capacity and effort do not reflect the true condition of many state and local governments. The formula uses a state's personal income as a proxy for its tax capacity -- its ability to raise revenues to provide services. However, the use of this single index to measure fiscal capacity seriously misrepresents the actual ability of many governments to raise revenues. Income is only one of the bases on which state and local taxes are imposed. Other significant sources, such as state corporate taxes, sales taxes, property taxes, and energy severance taxes, are not figured into the tax-capacity measure.

The personal income approach also fails to account for the ability of some states to impose taxes that ultimately are paid by non-residents, a practice known as "tax exporting." This is particularly true for energy-producing states and those whose economies rely heavily on tourism. With the decontrol of crude oil and natural gas and increased production of coal, "exported" severance taxes have come to account for a large portion of the tax effort of energy-producing states.

To overcome this deficiency, the Advisory Commission on Intergovernmental Relations has developed another measure for tax capacity -- and, thereby, tax effort -- by estimating the amount of revenue state and local governments would have generated had they used all of their taxable resources. This "representative tax system" (RTS) -- or some modification of it -- is fairer and more comprehensive than the current "per capita income" method because it takes into account all potential sources of a state's revenue rather than just one.

The RTS measure also is far more sensitive to changes in the economic and fiscal condition of state and local governments than is the per capita income measure. The list below shows the 14 states in the Northeast and Midwest that are hurt by using the per capita income measure for tax capacity and effort instead of the RTS measure.

Connecticut
Massachusetts
Rhode Island
Maryland
New Jersey
New York
Pennsylvania
Illinois
Indiana
Iowa
Michigan
Minnesota
Ohio
Wisconsin

**F. Assisted Housing**

No new fiscal 1987 budget authority is requested for HUD's assisted housing programs. The administration proposes to fund all activities for next year from a $2.3 billion deferral of 1986 authority. It would limit new housing assistance for the poor to about 50,000 additional families receiving vouchers for a portion of their rent. The vouchers provide such assistance for five years, compared to 15 or more years for most other assisted housing programs. The administration's proposal would pare fiscal 1986 budget authority to $2.8 billion, and asks for housing program rescissions of $4.4 billion. An additional $428.5 million could be sequestered.

This dramatic 74 percent cut from the $10.8 billion level of fiscal 1985 would have a significant impact on the Northeast-Midwest region. The budget also assumes pipeline deobligations (i.e., authority recaptures) of $537.5 million in fiscal 1986. If these 1986 changes are made, housing assistance would not be available for some 64,000 families nationwide that are scheduled to receive it for the first time.

Public housing modernization funds would continue at very low levels. The budget proposal would maintain the level of rehabilitation activity at $225 million in fiscal 1987, the same as in 1986. In fiscal 1985, it was set at $823 million. This level would fund only emergency rehabilitation and repair projects. More routine maintenance carried out under this program in the past would be deferred. Adequate modernization is especially crucial to the region's housing authorities, which oversee much of the oldest and least-energy efficient public housing stock.

No additional units are proposed for the Section 202 program, which helps finance the construction of new housing units for the elderly and handicapped, or for public and Indian housing. The administration also proposes to end rural housing construction and modernization and rent subsidies.

Two new housing programs authorized in 1983 to promote private-sector rental housing development activity are slated for elimination. The Rental Rehabilitation Grant Program provides funds to repair existing housing stock and to upgrade older housing. The Housing Development Grant Program (HoDAG) is designed to leverage private investment and spur production of new rental housing in areas experiencing severe shortages. Each program was funded at $75 million in fiscal 1986; in each case, the entire amount is proposed for sequestration and rescission. No 1987 authority is sought for either program.

These proposals contrast sharply with assisted housing funding levels approved by Congress in its fiscal 1986 appropriation legislation. That spending act provided $9.9 billion in funds for 108,000 additional units, including:

- 36,000 five-year housing vouchers;
- 32,000 Section 8 existing 15-year certificates and 10,000 moderate rehabilitation units;
- 12,000 units for the elderly and handicapped; and
- 5,000 new public housing units.

In the past four years, the administration has reshaped housing policy dramatically. In contrast to the $24.8 billion in new authority for assisted housing in fiscal 1981, the fiscal 1987 budget requests no new appropriations, proposing instead to use $2.3 billion in deferred fiscal 1986 funds. New assisted housing units would decline from approximately 100,000 in 1986 to 9,000 in 1987. In fiscal 1981, about 225,000 new units were authorized. Federally-oriented "deep subsidy" programs have given way to less expensive, shorter-duration commitments such as housing vouchers that almost exclusively aid the poor in finding private-sector housing.

Section 8. The Housing Assistance Payments Program, commonly known as Section 8, provides a subsidy that makes up the difference between the actual costs of housing rentals and what lower-income families can afford to pay. Subsidy payments are equal to the difference between the actual rent (which is based on the fair market rent of comparable units in the area) and 30 percent of the family income. Section 8 subsidizes new unit construction, moderate and substantial rehabilitation, and the maintenance of existing rental stock.

The housing voucher program, proposed by the administration and launched by Congress in 1983, adds a new dimension to housing assistance. In essence, it links assisted families with resources rather than units. The voucher subsidy is based on the difference between an established area market payment standard and a fixed percentage of family income, currently 30 percent for new participants. (For state-by-state figures on major Section 8 occupancy levels, see the table at the end of this section.)

The budget proposes assistance for 66,714 new Section 8 units in 1986 -- 99 percent of all new housing assistance. Over three-quarters of the assistance would be in the form of vouchers. The pre-rescission 1986 authority level, which assumes sequestration, would assist 108,206 Section 8 units. Thus, the administration is proposing a 38 percent decrease in Section 8 assisted housing from appropriated fiscal 1986 levels. It seeks 62,500 additional units in fiscal 1987, with 87 percent of the assistance earmarked for vouchers. The remaining 9,000 units would be mostly existing Section 8 conversions. No funds are proposed for Section 8 certificates or moderate rehabilitation.

Public Housing. Public housing is the oldest federal housing program, designed to provide decent, safe, and sanitary housing to low-income households. Although the program is administered by HUD, actual operations are carried out by over 2,800 public housing authorities. Approximately 53 percent of the 1.2 million public housing units are located in the Northeast and Midwest. Public housing accounts for over 10 percent of all housing and provides shelter for over half the poor in several cities in the region. (See the table on public housing at the end of this chapter.)

In fiscal 1981, Congress authorized approximately 30,000 reservations for new unit construction. By fiscal 1985, the level had dropped to 7,626. The administration seeks only 350 units for 1986, one percent of the 1981 level, and asks for no new reservations in fiscal 1987.

The Section 202 program provides loans for developing housing for the elderly and handicapped. The administration proposes no additional units under this program for fiscal 1987, and only 100 units in fiscal 1986. In fiscal 1985, 12,639 new units were authorized under this program.

Federal housing subsidies originally were designed to fund the long-term debt of public housing authorities, while rent collections were intended to meet the operating costs. However, rents have failed to keep pace with expenses. Legislation passed in the early 1970s limited allowable rents to 25 percent of tenant income. This limit was raised to 30 percent in 1981. The operating subsidy thus has been used to bridge the gap between costs that have exceeded available rental income.

Operating subsidies rose to approximately $1.2 billion by 1985 because of increasing utility, labor, and maintenance costs. Even at that level, many public housing authorities -- particularly those in the urban areas of the Northeast and Midwest -- did not have enough funds to tend to their properties, many of which are now over 30 years old. Authorities now rely on the operating subsidy to meet almost half the day-to-day expenses. The operating subsidy proposal for fiscal 1987 is $1.171 billion, although funds carried over from 1986 will increase the total available to $1.232 billion. The administration has estimated the operating subsidy need for fiscal 1986 at $1.36 billion; this is projected to decrease to $1.28 billion in fiscal 1987.

Over the past few years, Congress has taken a number of steps to promote the long-term viability of the public housing stock, which some estimate could cost nearly $75 billion to replace, by appropriating funds for rehabilitation and modernization activities. These resources are directed to the Comprehensive Improvement Assistance Program (CIAP). Congress has provided over $9.3 billion in budget authority for CIAP since 1981 to improve the physical condition and upgrade the management and operation of public housing.

Even though thousands of units continue to deteriorate and more routine maintenance is deferred, the administration seeks to cut the CIAP program deeply. This action can serve only to increase costs for repair and replacement in the future. The authorized fiscal 1985 level of $862 million in rehabilitation activity would slip to $225 million in fiscal 1986, with all sums reserved for emergency projects. The same level is proposed for fiscal 1987. The remaining $1.27 billion appropriated for fiscal 1986 would be rescinded. In addition, the current bond-financed system would be replaced by a direct grant program, necessitating annual appropriations rather than long-term amortization of modernization costs.

Rental Rehabilitation and HoDAG. The 1983 Housing and Urban-Rural Recovery Act initiated two housing programs, the Rental Rehabilitation Grant Program and the Housing Development Grant Program, designed eventually to replace Section 8 new construction and substantial rehabilitation. Both promised to improve low-income rental housing opportunities in the region. Both are targeted for elimination in fiscal 1987, and all of their 1986 authority is proposed for rescission. (See the table at the end of this section.)

The Rental Rehabilitation Grant Program is designed to increase the supply of standard affordable housing by providing grants for rehabilitation of existing rental properties. Formula grants to states and communities are matched with either public or private funds. Grant recipients often give Section 8 certificates or vouchers to tenants who cannot afford the rents on the renovated units. The program is a small but effective tool for upgrading the region's older housing. From its first awards through 1985, it has assisted about 40,000 units in the region.

The Housing Development Grant Program, also known as HoDAG, was patterned after the popular UDAG program. It provides funds to states and local governments on a competitive basis to be used to attract private investment in housing projects. HoDAG was designed to spur new production in areas experiencing severe shortages of rental housing. In fiscal 1984 and 1985, HoDAG helped add over 16,000 units nationwide, about one-quarter for low-income persons.

Rural Housing. The major rural housing programs are administered by the Farmers Home Administration (FmHA). They have a combined budget authority of $2.26 billion in fiscal 1986. The $2.93 billion in outlays is expected to assist 54,470 units. The administration's 1987 budget request proposes to terminate these efforts. It maintains that HUD should be the sole housing agency and has enough authority and program resources to meet small community and rural housing needs. Thus, it has requested no new authority. The administration projects outlays of only $1.82 billion to cover prior commitments, and seeks a rescission of $230 million.

The Section 515 program subsidizes mortgage costs for sponsors of low- and moderate income rental housing. From its beginnings in 1973 through fiscal 1983, the program has financed approximately 345,000 units. FmHA also has a small rental assistance program for lower income families similar to HUD's

Section 8 program. In 1986, approximately $700 million would assist 19,000 families. This level is down 22 percent from 1985, when nearly 26,000 families received help for the first time. Individual home ownership loans are made to low- and moderate income persons through the Section 502 program. In fiscal 1986, an estimated $1.37 billion may be spent to help over 30,000 families purchase or repair new or existing dwellings. In 1985, more than 40,000 families received help when the program stood at the $1.76 billion level.

The Northeast and Midwest have received the largest share of housing assistance over the years. The region has most of the oldest public housing stock; any decrease in assisted housing programs will have enormous consequences.

Nearly 53 percent of the country's public housing units are located in the Northeast and Midwest. Because few new units are being built, this proportion will not change very much in the near future. This stock would be costly to replace; failure to provide adequate operating subsidy levels and modernization programs jeopardizes the government's previous investment. The region's public housing authorities rely heavily on this assistance and have limited alternatives to cover costs. In fiscal 1984, the Northeast and Midwest received 67 percent of all operating subsidies, and 63 percent of all modernization (CIAP) funds.

The new HoDAG and rental rehabilitation programs, which encourage more private-sector participation in housing construction and rehabilihation activities to benefit low- and moderate income persons, also have been beneficial to the region. Since they began in fiscal 1984, 52 percent of rental rehabilitation resources and 62 percent of the competitive HoDAG funds have been awarded to states and communities in the Northeast and Midwest.

## G. Rural Development

An adequate federal response to rural and small-city development problems and issues is important to the Northeast and Midwest, where 25 million people live in nonmetropolitan areas. In fact, New York, Pennsylvania, Ohio, and Michigan have a greater proportion of nonmetropolitan residents than all but two Western and Southern states.

Economic recovery in the region's small communities has been uneven. The continuing farm crisis is buffeting large parts of the farm belt. Many of its communities are as heavily dependent on agriculture and related business as smaller industrial towns are on steel and ancillary industries. These communities need federal and state economic development assistance to help them plan and begin practical community redevelopment programs to create new jobs and attract new investment.

To help stabilize their economies and promote recovery at a time when their own tax revenues are falling, these communities often need help to improve employment, housing, education, and social services. The direct agricultural and related community development needs of small town and rural America have been a major focus of federal assistance in the past. Now, new means of diversifying small-town economies and assuring rural economic development are needed.

Program areas listed below constitute four of the building blocks of small community and rural economic development. In each instance, communities with great dependence on such troubled economic sectors as agriculture and steel must ensure that new investment works to strengthen their economic future. State and federal assistance plays a key role in these efforts.

Infrastructure. Rural communities with deteriorating tax bases often are unable to provide residents with adequate transportation, waste and sewer facilities, or water services. These elements are important in spurring economic development, and weigh heavily in business location, retention, and expansion decisions. Many small communities simply do not have the fiscal capacity to finance and maintain the necessary capital plant. They are faced with the proposed elimination of the public works grant, loan, and guarantee programs of the Economic Development Administration and the Farmers Home Administration. The loss of FmHA rural development programs, authorized at $649 million in fiscal 1985, would be especially significant.

Credit and Access to Capital. The condition of many rural financial institutions is weak, and their ability to serve their small communities is in doubt. Agricultural credit problems threaten many agriculturally based banks, and several have failed. As a result, rural financial institutions cannot produce the required capital for construction and initial operation of new ventures that create jobs. Rural communities need investment capital from other sources now more than ever, yet the administration proposes to eliminate many federal credit programs. The loss of the Small Business Administration's Section 503 development company program, as well as its individual business loans and loan guarantees, would hurt "main street" revitalization efforts throughout the region.

General Economic Development. Some form of federal investment or assistance is necessary for economic development to occur. Many small communities do not have the size or diversity of resources to underwrite development projects. In the past, the federal government has filled this gap with a variety of programs. The Urban Development Action Grant program, which has provided targeted assistance for commercial and industrial development to many small communities, also is proposed for elimination. Resources of the state-administered small-cities Community Development Block Grant program will be in even greater demand due to the elimination of so many other infrastructure and development programs. Even with a proposed allocation change to increase the CDBG share received by small communities, only about $44 million in additional resources would be available in fiscal 1987. General revenue sharing is one of the most versatile programs for small communities, providing further assistance for a variety of activities. In fact, jurisdictions with populations under 10,000 -- many of which receive no other type of federal assistance -- make up more than 85 percent of the program's recipients. The program, however, is among those proposed for termination in fiscal 1987.

Housing. Inadequate housing is more common in small and rural communities than in metropolitan areas. Approximately 43 percent of the nation's inadequate housing is concentrated in small communities and rural areas, although they contain only one-third of the total stock. The FmHA has administered several housing programs, such as its Section 515 rental subsidy program, targeted to low-income persons in rural areas. These programs had combined spending of $2.8 billion in fiscal 1985; all are proposed for elimination in fiscal 1987. The administration argues that other HUD housing programs, which also are proposed for substantial cuts, can meet rural and small city needs.

**Selected Rural Program Funding**
(in millions of dollars)

| | 1986 Authority | 1987 Proposed Authority |
|---|---|---|
| CDBG (30 percent share under current law) | 897 | 744 |
| FmHA Development Loans | 1010 | 740 |
| Water and Waste Disposal Grants | 109 | 0 |
| EDA (50 percent rural share) | 101 | 0 |
| Appalachian Regional Commission | 115 | 0 |
| UDAG (25 percent share under current law) | 79 | 0 |
| **TOTAL** | **2,311** | **1,484** |

## Community Development Block Grants: Fiscal 1985
(in millions of dollars)

|  | CBDG: Fiscal 1985 |  |  | Section 108 |
|---|---|---|---|---|
| Region and State | Total Allocation | Entitlement Communities | State Nonentitlement | Guarantees Issued Cumulative Fiscal 1978-1985 |
| **New England** |  |  |  |  |
| Connecticut | 39.2 | 28.8 | 10.5 | 2.0 |
| Maine | 16.4 | 5.0 | 11.3 | 0.0 |
| Massachusetts | 104.1 | 76.3 | 27.8 | 40.8 |
| New Hampshire | 10.5 | 3.8 | 6.7 | 0.0 |
| Rhode Island | 16.9 | 12.8 | 4.1 | 0.2 |
| Vermont | 6.5 | 0.8 | 5.7 | 0.0 |
| Total | 193.6 | 127.5 | 66.1 | 43.0 |
| **Mid-Atlantic** |  |  |  |  |
| Delaware | 7.6 | 5.9 | 1.6 | 1.0 |
| Maryland | 55.5 | 47.4 | 8.1 | 8.5 |
| New Jersey | 110.8 | 102.0 | 8.8 | 4.5 |
| New York | 370.1 | 328.7 | 41.5 | 66.0 |
| Pennsylvania | 222.1 | 177.8 | 44.3 | 42.1 |
| Total | 766.1 | 661.8 | 104.3 | 122.1 |
| **Midwest** |  |  |  |  |
| Illinois | 187.1 | 153.7 | 33.4 | 23.6 |
| Indiana | 66.9 | 37.8 | 29.1 | 32.5 |
| Iowa | 38.4 | 13.3 | 25.1 | 1.2 |
| Michigan | 138.7 | 106.6 | 32.1 | 171.6 |
| Minnesota | 54.9 | 33.0 | 21.8 | 5.8 |
| Ohio | 161.5 | 118.0 | 43.5 | 3.1 |
| Wisconsin | 60.8 | 34.8 | 26.1 | 2.0 |
| Total | 708.3 | 479.2 | 211.1 | 260.8 |
| Missouri | 73.5 | 49.3 | 24.3 | 2.5 |
| Total with Missouri | 781.8 | 528.5 | 235.4 | 263.3 |
| **Northeast** | 959.7 | 789.3 | 170.4 | 165.1 |
| **Midwest*** | 708.3 | 97.2 | 211.1 | 260.8 |
| **Northeast and Midwest*** | 1,668.0 | 1,286.5 | 381.5 | 425.9 |
| **South** | 920.1 | 502.4 | 417.7 | 101.9 |
| **West** | 704.6 | 537.0 | 167.6 | 159.0 |
| **South and West** | 1,624.7 | 1,039.4 | 585.3 | 260.9 |
| **U.S. Total**[1] | 3,292.7 | 2,325.9 | 966.8 | 686.8 |

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*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. totals do not include Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Community Development Block Grant Program: Directory of Allocations for Fiscal Years 1980-1985, (Washington, D.C., September, 1985); Loan Guarantee Authority (Section 108) unpublished data, January 1986.

## Urban Development Action Grants: Investment and Job Creation, 1978-1985

(in millions of dollars)

| Region and State | UDAG Awards | Private Investment | Ratio | Jobs Created | Jobs Retained |
|---|---|---|---|---|---|
| **New England** | | | | | |
| Connecticut | 68.0 | 345.9 | 5.1 | 6,071 | 2,325 |
| Maine | 34.1 | 131.2 | 3.9 | 3,867 | 2,101 |
| Massachusetts | 274.2 | 1,715.5 | 6.3 | 40,097 | 10,296 |
| New Hampshire | 29.0 | 133.7 | 4.7 | 4,354 | 130 |
| Rhode Island | 26.5 | 152.1 | 5.8 | 6,139 | 709 |
| Vermont | 17.3 | 71.7 | 4.2 | 2,227 | 98 |
| Total or Average | 449.1 | 2,550.1 | 5.0 | 62,755 | 15,659 |
| **Mid-Atlantic** | | | | | |
| Delaware | 42.4 | 189.4 | 4.5 | 3,961 | 2,856 |
| Maryland | 90.5 | 445.6 | 5.0 | 6,960 | 2,774 |
| New Jersey | 245.3 | 1,307.7 | 5.4 | 34,938 | 6,773 |
| New York | 484.6 | 2,543.5 | 5.3 | 60,190 | 20,453 |
| Pennsylvania | 261.9 | 1,318.5 | 5.1 | 27,577 | 4,973 |
| Total or Average | 1,124.7 | 5,804.7 | 5.1 | 133,626 | 37,829 |
| **Midwest** | | | | | |
| Illinois | 167.6 | 1,166.6 | 7.0 | 27,579 | 1,906 |
| Indiana | 80.8 | 579.2 | 7.2 | 9,647 | 4,414 |
| Iowa | 42.9 | 234.6 | 5.5 | 5,719 | 3,397 |
| Michigan | 273.8 | 2,388.7 | 8.8 | 31,452 | 6,668 |
| Minnesota | 118.7 | 800.4 | 6.8 | 13,746 | 8,036 |
| Ohio | 241.0 | 1,603.7 | 6.7 | 28,629 | 9,974 |
| Wisconsin | 77.5 | 426.8 | 5.6 | 8,897 | 4,601 |
| Total or Average | 1,002.3 | 7,200.0 | 6.8 | 125,685 | 38,996 |
| Missouri | 121.9 | 630.8 | 5.2 | 15,904 | 2,772 |
| Total with Missouri | 1,124.2 | 7,830.8 | 6.6 | 141,589 | 41,768 |
| **Northeast** | 1,573.8 | 8,354.8 | 5.0 | 196,381 | 53,488 |
| **Midwest*** | 1,002.3 | 7,200.0 | 6.8 | 125,685 | 38,996 |
| **Northeast and Midwest*** | 2,576.1 | 15,554.8 | 5.9 | 322,066 | 92,484 |
| **South** | 740.7 | 4,751.1 | 6.3 | 112,321 | 17,941 |
| **West** | 471.4 | 2,923.0 | 4.4 | 69,217 | 13,326 |
| **South and West** | 1,212.1 | 7,674.1 | 5.3 | 181,538 | 31,267 |
| **U.S. Total or Average**[1] | 3,788.2 | 23,228.9 | 5.6 | 503,604 | 123,751 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. totals do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Urban Development Action Grants Data Book, Volume 43 (Washington, D.C., October 15, 1985), p. 16.

## Urban Development Action Grants: 1978-1985
## Awards by Grant Type: Large and Small Cities
(in millions of dollars)

| Region and State | Large Cities |  | Small Cities |  |
|---|---|---|---|---|
|  | Cumulative 1978-1985 | 1985 | Cumulative 1978-1985 | 1985 |
| **New England** |  |  |  |  |
| Connecticut | 67.1 | 18.6 | 0.9 | - |
| Maine | 16.3 | - | 17.8 | 0.9 |
| Massachusetts | 225.4 | 46.5 | 48.8 | 6.0 |
| New Hampshire | 23.5 | - | 5.5 | - |
| Rhode Island | 18.8 | - | 7.7 | 5.8 |
| Vermont | 5.0 | - | 12.3 | 0.8 |
| Total | 356.1 | 65.1 | 93.0 | 13.5 |
| **Mid-Atlantic** |  |  |  |  |
| Delaware | 41.5 | 1.6 | 1.0 | 0.1 |
| Maryland | 86.4 | 19.1 | 4.1 | - |
| New Jersey | 202.6 | 18.4 | 42.8 | 3.3 |
| New York | 397.1 | 38.5 | 87.5 | 12.9 |
| Pennsylvania | 191.3 | 13.9 | 70.6 | 4.9 |
| Total | 718.9 | 91.5 | 206.0 | 21.2 |
| **Midwest** |  |  |  |  |
| Illinois | 122.8 | 12.5 | 44.8 | - |
| Indiana | 61.2 | 0.4 | 19.6 | 0.9 |
| Iowa | 26.4 | - | 16.5 | 1.4 |
| Michigan | 209.1 | 27.1 | 64.7 | 8.7 |
| Minnesota | 106.6 | 0.5 | 12.1 | 3.5 |
| Ohio | 208.3 | 37.0 | 32.7 | 3.1 |
| Wisconsin | 54.4 | 2.2 | 23.1 | 8.6 |
| Total | 788.8 | 79.7 | 213.5 | 28.2 |
| Missouri | 108.5 | 8.5 | 13.4 | 2.8 |
| Total with Missouri | 897.3 | 88.2 | 226.9 | 31.0 |
| **Northeast** | 1075.0 | 156.6 | 299.0 | 34.7 |
| **Midwest*** | 788.8 | 79.7 | 213.5 | 28.2 |
| **Northeast and Midwest*** | 1,863.8 | 236.3 | 512.5 | 62.9 |
| **South** | 674.9 | 32.1 | 265.1 | 30.7 |
| **West** | 335.4 | 16.1 | 141.8 | 13.3 |
| **South and West** | 1,010.3 | 48.2 | 406.9 | 44.0 |
| **U.S. Total**[1] | 2,874.1 | 284.5 | 919.4 | 106.9 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. figures do not include Puerto Rico or the Territories.

SOURCES: U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Urban Development Action Grants Data Book, Volume 43 (Washington, D.C., October 15, 1985), p. 15; Office of Public Affairs, News Releases, 85-15, February 2, 1985; 85-43, April 3, 1985; 85-90, June 6, 1985; 85-115, July 10, 1985; 85-128, August 5, 1985; 85-165, October 3, 1985; 85-190, December 5, 1985.

## Economic Development Administration (EDA)
## Obligated Projects: Fiscal 1985
(in thousands of dollars)

| Region and State | Total | Public Works | Economic Adjustment | Other[1] |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | 6,635.0 | 500.0 | 0.0 | 6,135.0 |
| Maine | 1,850.2 | 1,388.9 | 0.0 | 461.3 |
| Massachusetts | 4,239.0 | 1,742.1 | 575.0 | 1,921.9 |
| New Hampshire | 810.0 | 600.0 | 0.0 | 210.0 |
| Rhode Island | 395.0 | 0.0 | 300.0 | 95.0 |
| Vermont | 420.0 | 280.8 | 0.0 | 140.0 |
| Total | 14,349.2 | 4,511.0 | 875.0 | 8,963.2 |
| **Mid-Atlantic** | | | | |
| Delaware | 757.0 | 377.0 | 300.0 | 80.0 |
| Maryland | 724.0 | 245.6 | 175.0 | 303.4 |
| New Jersey | 3,599.8 | 2,320.0 | 688.5 | 591.3 |
| New York | 14,904.8 | 7,010.0 | 3,125.0 | 4,769.8 |
| Pennsylvania | 8,804.9 | 4,162.0 | 2,148.7 | 2,494.2 |
| Total | 28,790.5 | 14,114.6 | 6,437.2 | 8,238.7 |
| **Midwest** | | | | |
| Illinois | 5,259.4 | 4,321.7 | 30.0 | 907.7 |
| Indiana | 3,022.8 | 1,488.3 | 800.0 | 734.5 |
| Iowa | 2,577.8 | 1,692.3 | 375.0 | 510.5 |
| Michigan | 5,958.7 | 4,750.2 | 0.0 | 1,208.5 |
| Minnesota | 3,587.5 | 2,448.5 | 485.0 | 654.0 |
| Ohio | 8,180.3 | 6,072.8 | 1,000.0 | 1,107.5 |
| Wisconsin | 7,392.8 | 4,310.0 | 2,271.8 | 811.0 |
| Total | 35,979.3 | 25,083.8 | 4,961.8 | 5,933.7 |
| Missouri | 3,865.6 | 2,075.5 | 800.0 | 990.1 |
| Total with Missouri | 39,844.9 | 27,159.3 | 5,761.8 | 6,923.8 |
| **Northeast** | 43,139.7 | 18,625.6 | 7,312.2 | 17,201.9 |
| **Midwest*** | 35,979.3 | 25,083.8 | 4,961.8 | 5,933.7 |
| **Northeast and Midwest*** | 79,119.0 | 43,709.4 | 12,274.0 | 23,135.6 |
| **South** | 72,784.2 | 47,990.3 | 10,135.9 | 14,658.0 |
| **West** | 55,492.9 | 34,231.6 | 10,580.9 | 10,680.4 |
| **South and West** | 128,277.1 | 82,221.9 | 20,716.8 | 25,338.4 |
| **U.S. Total**[2] | 207,396.1 | 125,931.3 | 32,990.8 | 48,474.0 |

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*Regional totals do not include Missouri figures; they are included under West.

[1] Includes funds for planning, research, technical assistance grants, and loan guarantees.

[2] U.S. totals do not include funds for Puerto Rico or the Territories, or those not distributed by state.

SOURCE: Staff calculations from U.S. Department of Commerce, Economic Development Administration, unpublished preliminary data, January 1986.

## Small Business Administration (SBA) Program Levels: Fiscal 1985
(in millions of dollars)

| Region and State | Direct Loans |  | Guaranteed Loans |  |  | Selected Investment Companies[2] |  |
|---|---|---|---|---|---|---|---|
|  | Total | General Business (7A) | Total | General Business (7A) | 503 | SBIC | MESBIC |
| **New England** |  |  |  |  |  |  |  |
| Connecticut | 2.74 | 1.99 | 27.18 | 22.05 | 5.13 | 21.81 | 0.63 |
| Maine | 0.63 | 0.30 | 27.50 | 25.36 | 2.08 | 0.66 | -- |
| Massachusetts | 3.98 | 2.62 | 56.34 | 41.97 | 14.06 | 30.16 | 0.24 |
| New Hampshire | 0.24 | 0.18 | 25.85 | 23.44 | 2.41 | 3.64 | -- |
| Rhode Island | 0.92 | 0.65 | 16.50 | 11.09 | 5.41 | 1.40 | -- |
| Vermont | 0.21 | 0.04 | 17.07 | 15.49 | 1.57 | 0.06 | 0.01 |
| Total | 8.72 | 5.78 | 170.44 | 139.40 | 30.66 | 57.73 | 0.88 |
| **Mid-Atlantic** |  |  |  |  |  |  |  |
| Delaware | -- | -- | 2.34 | 1.62 | 0.72 | -- | -- |
| Maryland | 4.06 | 3.31 | 21.25 | 18.44 | 2.36 | 2.97 | 0.39 |
| New Jersey | 3.13 | 2.83 | 57.98 | 54.14 | 3.84 | 11.07 | 0.84 |
| New York | 8.98 | 6.58 | 142.92 | 132.53 | 10.39 | 40.82 | 13.48 |
| Pennsylvania | 2.78 | 1.14 | 60.98 | 53.03 | 7.95 | 9.31 | 1.17 |
| Total | 18.95 | 13.86 | 285.47 | 259.76 | 25.26 | 64.17 | 15.88 |
| **Midwest** |  |  |  |  |  |  |  |
| Illinois | 6.87 | 3.78 | 120.00 | 112.03 | 6.36 | 5.53 | 1.59 |
| Indiana | 2.73 | 1.50 | 41.72 | 33.01 | 8.54 | 2.48 | 0.26 |
| Iowa | 1.62 | 0.75 | 63.93 | 59.64 | 4.25 | 2.44 | -- |
| Michigan | 2.21 | 1.42 | 48.56 | 31.88 | 16.21 | 13.93 | 5.50 |
| Minnesota | 1.44 | 0.93 | 44.00 | 36.34 | 7.63 | 12.29 | 0.67 |
| Ohio | 4.55 | 2.82 | 101.40 | 82.31 | 18.63 | 10.97 | 0.68 |
| Wisconsin | 2.87 | 2.46 | 89.28 | 77.95 | 10.23 | 4.70 | -- |
| Total | 22.29 | 13.66 | 508.89 | 433.16 | 71.85 | 52.34 | 8.70 |
| Missouri | 3.95 | 3.77 | 111.10 | 93.67 | 17.43 | 0.76 | 0.05 |
| Total with Missouri | 26.24 | 17.43 | 619.99 | 526.32 | 89.28 | 53.10 | 8.75 |
| **Northeast** | 27.67 | 19.64 | 455.91 | 399.16 | 55.92 | 121.90 | 16.76 |
| **Midwest*** | 22.29 | 13.66 | 508.89 | 433.16 | 71.85 | 52.34 | 8.70 |
| **Northeast and Midwest*** | 49.96 | 33.30 | 964.80 | 832.32 | 127.77 | 174.24 | 25.46 |
| **South** | 30.81 | 20.51 | 548.49 | 496.20 | 49.20 | 118.99 | 13.25 |
| **West** | 34.55 | 23.05 | 1,081.54 | 974.81 | 104.08 | 117.32 | 14.28 |
| **South and West** | 65.36 | 43.56 | 1,630.03 | 1,471.01 | 153.28 | 236.31 | 27.53 |
| **U.S. Total[1]** | 115.32 | 76.86 | 2,594.83 | 2,303.33 | 281.05 | 410.55 | 52.99 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. figures do not include funds for Puerto Rico or the Territories.

[2] Figures for Small Business Investment Companies (SBICs) and Minority Enterprise Small Business Investment Companies (MESBICs) are on a calendar year basis.

SOURCE: Staff calculations from U.S. Small Business Administration, "Program Activity by State," computer printout, Washington, D.C., January 1986.

## General Revenue Sharing: Fiscal 1985
(in thousands of dollars)

| Region and State | Amount | Percent of U.S. Total |
|---|---|---|
| **New England** | | |
| Connecticut | 54,006 | 1.18 |
| Maine | 28,270 | 0.62 |
| Massachusetts | 128,683 | 2.82 |
| New Hampshire | 14,202 | 0.31 |
| Rhode Island | 20,187 | 0.44 |
| Vermont | 12,021 | 0.26 |
| Total | 257,369 | 5.64 |
| **Mid-Atlantic** | | |
| Delaware | 13,249 | 0.29 |
| Maryland | 87,473 | 1.92 |
| New Jersey | 146,242 | 3.20 |
| New York | 461,818 | 10.11 |
| Pennsylvania | 219,033 | 4.80 |
| Total | 927,815 | 20.32 |
| **Midwest** | | |
| Illinois | 209,985 | 4.60 |
| Indiana | 85,611 | 1.87 |
| Iowa | 54,191 | 1.19 |
| Michigan | 192,524 | 4.22 |
| Minnesota | 89,594 | 1.96 |
| Ohio | 189,476 | 4.15 |
| Wisconsin | 107,676 | 2.36 |
| Total | 929,057 | 20.34 |
| Missouri | 79,760 | 1.75 |
| Total with Missouri | 1,008,817 | 22.09 |
| **Northeast** | 1,185,184 | 25.96 |
| **Midwest*** | 929,057 | 20.34 |
| **Northeast and Midwest*** | 2,114,241 | 46.30 |
| **South** | 1,348,603 | 29.53 |
| **West** | 1,103,854 | 24.17 |
| **South and West** | 2,452,457 | 53.70 |
| **U.S. Total** | 4,566,700 | 100.00 |

*Regional totals do not include Missouri figures; they are included under West.

SOURCE: Staff calculations from U.S. Department of the Treasury, Office of Revenue Sharing, computer printout, December 12, 1984.

## Section 8 Assisted Housing Occupancy
(Total Units)

| Region and State | New Construction | Substantial Rehabilitation | Moderate Rehabilitation | Existing | Total |
|---|---|---|---|---|---|
| **New England** | | | | | |
| Connecticut | 7,930 | 3,779 | 1,088 | 13,504 | 26,301 |
| Maine | 4,395 | 2,366 | 1,071 | 5,693 | 13,525 |
| Massachusetts | 18,626 | 12,018 | 2,466 | 52,152 | 85,262 |
| New Hampshire | 3,495 | 1,152 | 266 | 3,862 | 8,775 |
| Rhode Island | 8,940 | 2,500 | 318 | 6,715 | 18,473 |
| Vermont | 1,938 | 1,007 | 108 | 1,903 | 4,956 |
| Total | 45,324 | 22,822 | 5,317 | 83,829 | 157,292 |
| **Mid-Atlantic** | | | | | |
| Delaware | 2,747 | 386 | 46 | 2,595 | 5,774 |
| Maryland | 11,504 | 1,823 | 1,188 | 16,327 | 30,842 |
| New Jersey | 21,045 | 7,207 | 1,595 | 30,274 | 60,121 |
| New York | 39,327 | 26,225 | 6,097 | 96,784 | 168,433 |
| Pennsylvania | 31,746 | 4,124 | 2,719 | 40,436 | 78,935 |
| Total | 106,369 | 39,765 | 11,645 | 186,326 | 344,105 |
| **Midwest** | | | | | |
| Illinois | 28,651 | 5,719 | 1,788 | 26,132 | 62,290 |
| Indiana | 17,292 | 1,573 | 1,364 | 24,452 | 44,681 |
| Iowa | 8,937 | 315 | 846 | 10,746 | 20,844 |
| Michigan | 32,814 | 1,907 | 197 | 23,632 | 58,550 |
| Minnesota | 19,804 | 1,338 | 528 | 20,172 | 41,842 |
| Ohio | 29,978 | 6,702 | 2,770 | 59,824 | 99,274 |
| Wisconsin | 21,917 | 1,296 | 629 | 19,772 | 43,614 |
| Total | 159,393 | 18,850 | 8,122 | 184,730 | 371,095 |
| Missouri | 14,500 | 3,135 | 1,997 | 21,123 | 40,755 |
| Total with Missouri | 173,893 | 21,985 | 10,119 | 205,853 | 411,850 |
| **Northeast** | 151,693 | 62,587 | 16,962 | 270,155 | 501,397 |
| **Midwest*** | 159,393 | 18,850 | 8,122 | 184,730 | 371,095 |
| **Northeast and Midwest*** | 311,086 | 81,437 | 25,084 | 454,885 | 872,492 |
| **South**[1] | -- | -- | -- | -- | -- |
| **West**[1] | -- | -- | -- | -- | -- |
| **South and West** | 294,086 | 31,161 | 34,419 | 150,287 | 955,553 |
| **U.S. Total** | 605,172 | 112,598 | 59,503 | 1,050,772 | 1,828,045 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Specific state data for the South and West unavailable.

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Assisted Housing Branch, "Report on Section 8 Occupancy" (Washington, D.C., September 1985).

## Public Housing Authority: Inventory and Funding Fiscal 1984

| Region and State | Dwelling Units | Program Expenditures (in millions of dollars) | |
|---|---|---|---|
| | | Operating Subsidy | Modernization Funding |
| **New England** | | | |
| Connecticut | 18,639 | 24.22 | 16.95 |
| Maine | 4,004 | 2.21 | 3.76 |
| Massachusetts | 35,221 | 42.40 | 33.18 |
| New Hampshire | 4,024 | 1.72 | 1.37 |
| Rhode Island | 9,715 | 4.91 | 8.90 |
| Vermont | 1,749 | 0.86 | 0.48 |
| Total | 73,352 | 76.32 | 64.64 |
| **Mid-Atlantic** | | | |
| Delaware | 3,150 | 3.91 | 12.67 |
| Maryland | 25,529 | 38.19 | 23.13 |
| New Jersey | 46,213 | 62.29 | 70.84 |
| New York | 183,540 | 270.72 | 115.48 |
| Pennsylvania | 78,171 | 88.64 | 60.38 |
| Total | 336,603 | 463.75 | 282.50 |
| **Midwest** | | | |
| Illinois | 76,507 | 109.72 | 34.39 |
| Indiana | 16,618 | 15.01 | 7.05 |
| Iowa | 3,874 | 0.04 | 0.69 |
| Michigan | 28,029 | 23.05 | 14.52 |
| Minnesota | 20,992 | 10.09 | 8.92 |
| Ohio | 52,420 | 58.13 | 41.20 |
| Wisconsin | 12,892 | 3.64 | 23.09 |
| Total | 211,332 | 219.68 | 129.86 |
| Missouri | 20,861 | 16.19 | 7.02 |
| Total with Missouri | 232,193 | 235.87 | 136.88 |
| **Northeast** | 409,995 | 540.07 | 347.14 |
| **Midwest*** | 211,332 | 219.68 | 129.86 |
| **Northeast and Midwest*** | 621,287 | 759.75 | 477.00 |
| **South** | 425,771 | 301.86 | 204.61 |
| **West** | 135,344 | 75.26 | 70.42 |
| **South and West** | 561,115 | 377.12 | 275.01 |
| **U.S. Total**[1] | 1,182,402 | 1,136.87 | 752.01 |

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*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. figures do not include funds for Puerto Rico or the Territories.

SOURCES: U.S. Department of Housing and Urban Development, Office of Public Housing, "Fiscal Data Survey for FY 84" (Washington, D.C., December 1985); and Office of Policy Development and Research, "Modernization Loan Authority Approved for FY 84" (Washington, D.C., September 1985).

## Rental Rehabilitation and Development Grant Programs
## Cumulative Program Data: Fiscal Years 1984-1985
(in thousands of dollars)

| Region and State | Rehabilitation Grants |  | Development Grants (HoDAG) |  |
|---|---|---|---|---|
|  | Entitlement Cities | States | Amount | Total Units |
| **New England** |  |  |  |  |
| Connecticut | 2,274 | 1,700 | 6,961 | 340 |
| Maine | 247 | 991 | 7,022 | 199 |
| Massachusetts | 5,863 | 3,756 | 22,878 | 863 |
| New Hampshire | 357 | 563 | -- | -- |
| Rhode Island | 897 | 902 | 5,953 | 247 |
| Vermont | -- | 450 | 3,800 | 160 |
| Total | 9,638 | 8,362 | 46,614 | 1,809 |
| **Mid-Atlantic** |  |  |  |  |
| Delaware | 489 | -- | 1,050 | 44 |
| Maryland | 4,446 | 714 | 6,405 | 266 |
| New Jersey | 8,591 | 2,159 | 11,353 | 364 |
| New York | 41,226 | 3,652 | 47,497 | 1,999 |
| Pennsylvania | 11,547 | 3,052 | 19,067 | 913 |
| Total | 66,299 | 9,577 | 85,372 | 3,586 |
| **Midwest** |  |  |  |  |
| Illinois | 14,260 | 2,963 | 24,966 | 934 |
| Indiana | 2,839 | 1,979 | -- | -- |
| Iowa | 1,035 | 1,344 | 4,230 | 178 |
| Michigan | 6,567 | 3,100 | 16,259 | 1,286 |
| Minnesota | 2,166 | 1,475 | 3,202 | 228 |
| Ohio | 9,234 | 3,769 | 14,522 | 658 |
| Wisconsin | 2,477 | 1,980 | 3,509 | 192 |
| Total | 38,578 | 16,610 | 66,688 | 3,476 |
| Missouri | 3,592 | 1,632 | 5,613 | 292 |
| Total with Missouri | 42,170 | 18,242 | 72,301 | 3,768 |
| **Northeast** | 75,937 | 17,939 | 131,986 | 5,395 |
| **Midwest*** | 38,578 | 16,610 | 66,688 | 3,476 |
| **Northeast and Midwest*** | 114,515 | 34,549 | 198,674 | 8,871 |
| **South** | 48,242 | 24,965 | 60,423 | 3,622 |
| **West** | 58,949 | 7,981 | 58,951 | 3,615 |
| **South and West** | 107,191 | 32,946 | 119,374 | 7,237 |
| **U.S. Total**[1] | 221,706 | 67,495 | 318,048 | 16,108 |

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*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. figures do not include funds for Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Rental Rehabilitation Program -- Monthly Program Report (Washington, D.C., December, 1985); and "Housing Development Grant Program-HDGP Listing by State" (Washington, D.C., January, 1986).

## SECTION TWO: HUMAN RESOURCES

The president's budget for employment and training and education programs generally calls for spending cuts and major changes to limit the availability of federal assistance. In employment and training, the effect of many of the proposed program changes would be to reduce state and local discretion in defining and responding to the most pressing needs by increasing the Secretary of Labor's authority over Job Training Partnership Act funds. Funds for promoting the reemployment of dislocated workers no longer would be distributed directly to states by formula; in the future, they would be distributed at the Secretary's discretion.

In education, major changes are proposed to substantially tighten eligibility and reduce or eliminate federal subsidies for student aid for post-secondary education. In addition, funds for vocational education would be reduced sharply and their use restricted to targeted populations.

Education and training resources are particularly important to Northeastern and Midwestern states, whose history of investment in education has produced the economic asset of a skilled and adaptable work force. States in the region on average spend 31 percent more per pupil than other states. (See the table of elementary and secondary education statistics at the end of this section.) Taken as a whole, the administration's funding cuts and program changes would weaken the very education and training tools needed by individuals and communities to help them adjust to shifting labor market demands in an increasingly competitive world economy.

The president's budget proposes spending of $4.25 billion for employment and training in fiscal 1987, a decrease of about one-quarter billion dollars from the 1986 total (assuming sequestration). Funds for programs to train dislocated workers and disadvantaged youth would be halved from fiscal 1985 levels. Major rescissions sought for fiscal 1986 would cut $208 million from summer youth jobs and $196 million from Job Corps.

The administration has requested $15.2 billion in new budget authority for education programs, a 14.5 percent cut from the fiscal 1986 post-sequestration level of $17.7 billion. In addition, $1.1 billion in education spending for fiscal 1986 would be rescinded.

### A. Employment and Training

The president's budget for the core employment and training program for the disadvantaged -- Title IIA of the Job Training Partnership Act (JTPA) -- requests $1.820 billion for fiscal 1987, which would be available for the program year beginning on July 1, 1987. This is compared with a post-sequestration figure of $1.782 billion for fiscal 1986, and spending of $1.886 billion in fiscal 1985. Because this program provides funding in advance of services, the impact of the first sequestration order, as assumed under Gramm-Rudman-Hollings, would not to begin to be felt until the fall of 1986.

## BUDGET SUMMARY
(in millions of dollars)

|  |  |  |  |  | Percent Change 1986-1987 |  |
|---|---|---|---|---|---|---|
|  | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
|  |  |  | Employment and Training |  |  |  |
| **Total Employment and Training** |  |  |  |  |  |  |
| Budget Authority | NA[1] | 5,422 | 4,487 | 4,250 | -5.28 | -9.01 |
| Outlays | NA[1] | 4,972 | 5,221 | 4,467 | -14.44 | -17.81 |
| **Training for the Disadvantaged** |  |  |  |  |  |  |
| Budget Authority | NA[1] | 1,886 | 1,782 | 1,820 | 2.13 | -1.89 |
| Outlays | NA[1] | 1,710 | 1,883 | 1,806 | -4.09 | -7.87 |
| **Summer Youth Employment** |  |  |  |  |  |  |
| Budget Authority | 839 | 825 | 428[2] | 428 | 0.00 | -3.94 |
| Outlays | 769 | 776 | 775 | 496 | -36.00 | -38.52 |
| **Title III Assistance to Dislocated Workers** |  |  |  |  |  |  |
| Budget Authority | NA[3] | 248 | 195[4] | 100 | -48.72 | -50.74 |
| Outlays | NA[3] | 162 | 200[4] | 230 | 15.00 | 10.47 |
| **Job Corps** |  |  |  |  |  |  |
| Budget Authority | 561 | 617 | 416[5] | 352 | -15.38 | -18.72 |
| Outlays | 540 | 593 | 614 | 398 | -35.18 | -37.73 |
| **Employment Service** |  |  |  |  |  |  |
| Budget Authority | 799 | 987 | 950 | 951 | 0.11 | -3.84 |
| Outlays | 781 | 918 | 984 | 950 | -3.46 | -7.26 |
| **Work Incentive Program** |  |  |  |  |  |  |
| Budget Authority | 365 | 267 | 165[6] | 0 | -100.00 | -100.00 |
| Outlays | 381 | 279 | 180 | 25[6] | -86.11 | -86.66 |

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[1] Funding figures for 1981 are non-comparable because of major changes in program design. The predecessor CETA program had $3.9 billion in budget authority in 1981, but included money for stipends, allowances, and wages in work experience programs.

[2] Includes a proposed rescission of $208 million in budget authority.

[3] This program did not exist in 1981.

[4] Includes a proposed supplemental appropriation of $74 million in budget authority and $2.6 million in outlays.

[5] Includes a proposed rescission of $196 million in budget authority and $17 million in outlays.

[6] Includes a proposed rescission of $46 million in budget authority and $38 million in outlays.

## BUDGET SUMMARY
(in millions of dollars)
(continued)

| | | | | | Percent Change 1986-1987 | |
|---|---|---|---|---|---|---|
| | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
| **Unemployment Compensation** | | | | | | |
| **Unemployment Compensation** | | | | | | |
| Budget Authority | 19,048 | 21,001 | 21,083 | 22,324[7] | 5.89 | 1.72 |
| Outlays | 19,664 | 17,475 | 16,482 | 16,885 | 2.45 | -1.59 |
| **Education** | | | | | | |
| **Total Education** | | | | | | |
| Budget Authority | 14,800 | 19,077 | 16,715[8] | 15,218 | -8.96 | -12.54 |
| Outlays | 15,900 | 16,682 | 17,840[8] | 14,442[8] | -19.05 | -22.24 |
| **Elementary, Secondary, and Vocational Education** | | | | | | |
| Budget Authority | 6,500 | 7,963 | 7,331 | 7,242 | -1.21 | -5.10 |
| Outlays | 6,800 | 7,633 | 7,350 | 7,361 | 0.15 | -3.79 |
| **Education for Disadvantaged Children** | | | | | | |
| Chapter I | | | | | | |
| Budget Authority | 3,112 | 3,696 | 3,530[9] | 3,688 | 4.48 | 0.36 |
| Outlays | 3,354 | 4,207 | 2,951[9] | 3,536[9] | 19.82 | 15.10 |
| Chapter II State Block Grants | | | | | | |
| Budget Authority | 614 | 532 | 506 | 529 | 4.55 | 0.43 |
| Outlays | 735 | 583 | 604 | 586 | -2.98 | -6.80 |
| **Vocational Education** | | | | | | |
| Budget Authority | 682 | 842 | 603[10] | 408 | -32.34 | -35.00 |
| Outlays | NA | 772 | 969[10] | 408[10] | -57.89 | -59.55 |

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[7] Includes $111 million to fold unemployment coverage for railroad workers into the regular state UI program.

[8] Includes a proposed rescission of $1.01 billion in budget authority and $100 million in outlays in fiscal 1986, and $700 million in outlays in fiscal 1987.

[9] Includes a proposed rescission of $7.18 million in budget authority and $1.01 million in outlays in fiscal 1986, and $4.59 million in outlays in fiscal 1987.

[10] Includes a proposed rescission of $210 million in budget authority and $4 million in outlays in fiscal 1986, and $143 million in outlays in fiscal 1987.

## BUDGET SUMMARY
(in millions of dollars)
(continued)

| | 1981 | 1985 | 1986 | 1987 | Percent Change 1986-1987 Nominal | Percent Change 1986-1987 Adjusted for Inflation |
|---|---|---|---|---|---|---|
| **Adult Education** | | | | | | |
| Budget Authority | 100 | 102 | 98 | 104 | 6.12 | 1.94 |
| Outlays | NA | 85 | 119 | 104 | -12.61 | -16.05 |
| **Handicapped Education** | | | | | | |
| Budget Authority | 1,025 | 1,321 | 1,306[11] | 1,303 | -0.23 | -4.16 |
| Outlays | 1,035 | 1,018 | 1,509[11] | 1,261[11] | -16.43 | -19.73 |
| **Bilingual Education** | | | | | | |
| Budget Authority | 161 | 143 | 137 | 143 | 4.38 | 0.27 |
| Outlays | 173 | 142 | 99 | 140 | 41.41 | 35.84 |
| **Impact Aid** | | | | | | |
| Budget Authority | 662 | 695 | 663 | 548 | -17.35 | -20.60 |
| Outlays | 697 | 647 | 710 | 611 | -13.94 | -17.33 |
| **Guaranteed Student Loans** | | | | | | |
| Budget Authority | 2,535 | 3,800 | 3,331 | 2,330 | -30.05 | -32.81 |
| Outlays | 2,259 | 3,535 | 3,232 | 2,546 | -21.23 | -24.33 |
| **Student Financial Assistance** | | | | | | |
| Budget Authority | NA | 5,160 | 4,221[12] | 3,813 | -9.67 | -13.22 |
| Outlays | NA | 4,163 | 4,990[12] | 4,264[12] | -14.55 | -17.91 |
| **Higher Education** | | | | | | |
| Budget Authority | NA | 497 | 255[13] | 262 | 2.75 | -1.30 |
| Outlays | NA | 405 | 457[13] | 301[13] | -31.14 | -36.73 |

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[11] Includes a proposed rescission of $44.36 million in budget authority and $2.89 million in outlays in fiscal 1986, and $31.9 million in outlays in fiscal 1987.

[12] Includes a proposed rescission of $456 million in budget authority and $75 million in outlays in fiscal 1986, and $336 million in outlays in fiscal 1987.

[13] Includes a proposed rescission of $181 million in budget authority and $21 million in outlays in fiscal 1986, and $122 million in outlays in fiscal 1987.

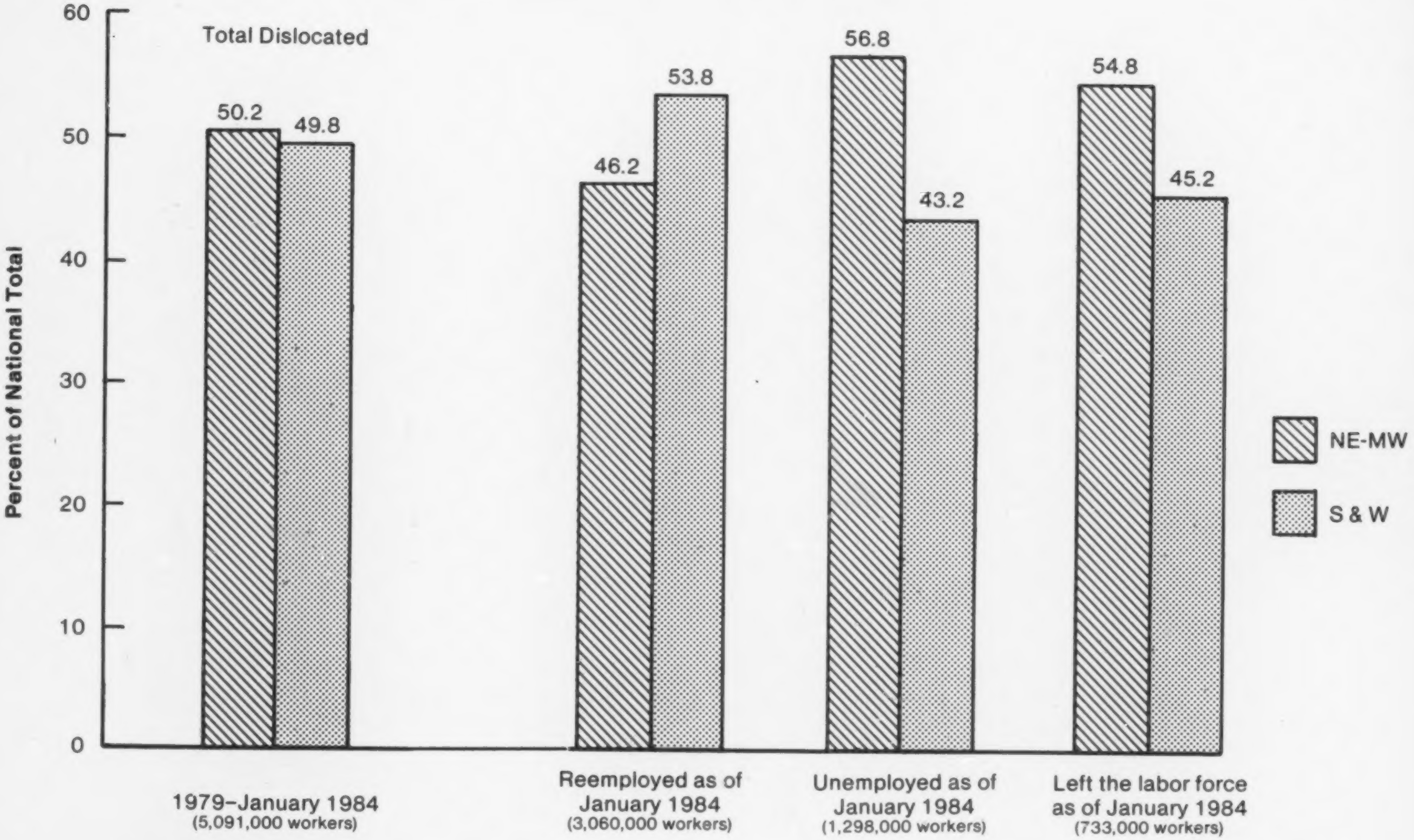
Title IIA funds are distributed by formula to local areas nationwide, where their use is determined jointly by Private Industry Councils and local elected officials. The program provides for a variety of job search, skill training, and basic education activities for disadvantaged adults and youth. States in the Northeast and Midwest receive approximately 45 percent of Title IIA funds, and have used them in programs to educate dropouts, find employment for welfare recipients, and train the unemployed for jobs.

Title III of JTPA provides grants to states for reemployment activities for dislocated workers. The Northeast and Midwest received 47 percent of formula-allocated funds for this program in fiscal 1985. Title III has been of special interest to the region because job losses in traditional industries, technological changes in the workplace, and the farm crisis have forced many persons with stable employment histories out of work. The president's budget proposal requests $100 million for fiscal 1987 and a supplemental appropriation of $74 million for fiscal 1986 for the dislocated workers program. This addition would restore only partially a $120 million cut made during the appropriations process, which reduced the fiscal 1986 total to a pre-sequestration figure of $100 million. The requested funds also would be expected to replace the services of the Trade Adjustment Assistance program, which lapsed in December. (For further discussion, see Section Six: Economic Competitiveness.) The budget proposes that these additional funds be distributed at the discretion of the Secretary of Labor. Beginning with fiscal 1987, all dislocated workers funds would be distributed at the Secretary's discretion, thus eliminating the current formula allocation to states of 75 percent of the total amount. The request assumes that such a change would enable the targeting of funds to areas and industries suffering the greatest distress. (See the table at the end of this section showing the regional distribution of dislocated workers over the last five years and 1984 figures on long-term unemployment.)

It is unclear by what means and standards a discretionary grant program would be administered. Because the present formula allocation has required state matching funds, states, with help from Private Industry Councils, have developed programs they believe address community needs. Although federal formula-based assistance caused these programs to be started, continuation of funding would be in doubt under the administration's proposal. Also, this proposal, which would eliminate the state role in Title III, leaves unanswered the question of how discretionary funds would be coordinated with other state- and locally based programs, such as Title IIA, the unemployment insurance program, and the education system.

Whatever the outcome of administration proposals concerning funds for dislocated workers programs, members of Congress have expressed strong interest in finding ways to better assist this population and assure a reliable and adequate funding source. One proposal, offered by Senator Dan Quayle (R-IN) and Representative Dennis Eckart (D-OH), is discussed below in the section on education programs. In the last Congress, members of the Northeast-Midwest Congressional Coalition introduced a new proposal, cosponsored by Representatives Richard J. Durbin (D-IL) and Sherwood L. Boehlert (R-NY), to establish a national system of Individual Training Accounts (ITAs). Employers and employees would contribute equally to such accounts up to a specified level, and the employee could withdraw needed amounts for retraining upon becoming involuntarily unemployed. The bill was reintroduced in the 99th Congress as

# Dislocated Workers



| U.S. Labor Force 1984: | |
|---|---|
| Northeast-Midwest | 44.3% |
| South & West | 55.7% |

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, "Employment status of displaced workers by state, January 1984."

H.R. 26. A complementary bill, cosponsored by Representatives Nancy L. Johnson (R-CT) and William F. Clinger, Jr. (R-PA), would allow individuals to withdraw funds without penalty from existing IRA accounts if the money is to be used for retraining.

The president proposes to rescind $208 million in fiscal 1986 from the summer youth jobs program (JTPA Title IIB) to bring funding down to $428 million for the summer of 1987. This funding level would be maintained in the future, nearly halving the $825 million that has been available for this program in recent years. The request states that appropriation language will be proposed to change the allocation of summer funds to target them to needy areas. Areas "with large concentrations of disadvantaged youth" would be held harmless at their current funding level, and the Secretary of Labor would be given discretion to determine how to accomplish this.

Allocation of summer jobs funds has been problematic in recent years because the passage of JTPA inadvertently changed the distribution formula in a way that underfunded urban areas, including many cities in the Northeast-Midwest region. In an effort led by Senator Alan J. Dixon (D-IL), Congress appropriated additional funds for the summers of 1984 and 1985 ($100 million each year) to correct the shortfall. For the summer of 1986, an appropriation amendment allows the Secretary of Labor to withhold a portion of the regular appropriation, which, combined with leftover funds in excess of those that localities are allowed to carry in from previous years, will be distributed to needy jurisdictions. The 1986 figures for Title IIB in the table on JTPA allocations at the end of this section reflect the fact that this additional allocation for the coming summer has not yet been determined. It is assumed that the process proposed in the president's budget request will be similar to the one being used this year. States in the Northeast-Midwest region received $371 million or nearly half the funds available for this program last summer.

The president also will seek congressional approval to set aside an unspecified percentage of the $428 million available for summer jobs in 1987 to give localities the option of conducting remedial education and literacy training for disadvantaged youth. Although currently allowed by law, few communities use summer jobs funds for this purpose. The administration's proposal recognizes that lack of basic skills contributes to young people dropping out of school and severely limits their employment potential. (See the table on youth employment and education problems at the end of this section.) In March 1985, Representatives Hamilton Fish, Jr. (R-NY) and Robert W. Edgar (D-PA), acting on behalf of the Northeast-Midwest Congressional Coalition, introduced H.R. 1722 to add a remedial education component to the summer youth jobs program by channeling additional funds for this purpose through Chapter I of the Education Consolidation and Improvement Act. The funding method used in the Fish-Edgar bill would tie the education system into the summer remedial education effort; the administration's suggestion would locate these activities in the JTPA system using existing jobs funds, which would deprive the program of important ties with educational systems.

The budget proposal requests a rescission of $196 million in fiscal 1986 for the Job Corps -- the residential training program for severely disadvantaged youth -- to reduce total funds to $416 million. Last year the administration proposed termination of Job Corps, but Congress continued its support for the program and increased its funding slightly.

The president requests $921 million for the Employment Service (ES) in 1987, down from $955 million in 1986 (assuming sequestration). Ninety-seven percent of these funds come from the unemployment insurance trust funds generated by taxes on employers in each state. The administration will continue current discussions with states about their assuming more responsibility for decisions on financing the administration of this program. In many quarters, discussions about the Employment Service are expected to go beyond this set of issues -- called "devolution" -- to more fundamental questions of the role of ES in the overall employment and training system. This interest comes as the problems of dislocated workers and disadvantaged youth increasingly point to the need for a strengthened job assessment, counseling, and referral service to meet the employment, training, and education needs of these groups. (For state-by-state and regional allocations for JTPA, see the table at the end of this section.)

Repeating a proposal made in previous years, the budget request seeks to eliminate the Work Incentive Program (WIN), and would rescind $45.9 million for fiscal 1986.

The administration is requesting increases in funding for research under the Department of Labor. Included would be $10 million for JTPA research and evaluation to "test new emerging strategies to address the training needs of . . . youths and dislocated workers," and $20 million for JTPA pilot and demonstration projects "to provide an expanded examination of labor market structural changes and of issues requiring national attention and coordination." However, threatening the repetition of another oft-fought battle, the administration would eliminate $4.8 million in Bureau of Labor Statistics funds for the Permanent Mass Layoff and Plant Closing Program, a data collection and reporting system championed by Representative William D. Ford (D-MI) that holds promise for aiding potential dislocated workers.

### B. Unemployment Insurance

The president's request estimates that outlays for unemployment insurance (UI) benefits will be $16.9 billion in fiscal 1987, a $400 million increase from 1986. It projects that an average of 2.2 million unemployed workers will receive benefits in fiscal 1987, 100,000 fewer than in 1986. The increase in outlays, at the same time that the number of beneficiaries is expected to decline, is attributed to higher average weekly benefits. The UI program is an important source of income support for the unemployed in the Northeast-Midwest region, where workers received $7.25 billion in benefits (54 percent of the national total) in fiscal 1985. (See the table at the end of this section.)

The administration's plan calls for spending only $4 million on the Extended Benefits (EB) program, which provides an additional 13 weeks of benefits to persons who have exhausted their regular UI payments in states with especially high unemployment (an insured unemployment rate above 6 percent). These benefits are financed half by federal and half by state UI taxes on employers. Because of changes enacted in previous years that severely limit the conditions under which EB may be "triggered on" in a state, only three states -- Alaska, Idaho, and West Virginia -- paid extended benefits during 1985. Currently EB is available only in Puerto Rico. In addition to its very restricted trigger, the program has limited flexibility because of its "all-or-nothing" nature. The program pays 13 weeks of benefits or none, regardless of how high above the trigger level a state's unemployment rate may rise. Also, the program has no provisions for assisting the unemployed in substate pockets of high joblessness; the whole state must meet the trigger standard for benefits to be paid.

The more flexible Federal Supplemental Compensation (FSC) program provided variable weeks of benefits, paid out of federal UI trust funds, the length of time depending on a state's unemployment rate. This program expired in March 1985. In fiscal 1985, 50 percent of the benefits paid by this program went to long-term unemployed persons in the Northeast and Midwest.

Efforts to improve the income assistance programs for the unemployed have been spearheaded by Senators Robert C. Byrd (D-WV) and John R. Heinz (R-PA) and in the House by Representatives Donald J. Pease (D-OH) and William F. Clinger, Jr. (R-PA), co-chairs of the Northeast-Midwest Congressional Coalition's Task Force on Unemployment Insurance. Their recommendations for reform include variable weeks of additional benefits and a sliding scale of federal financial participation based on each state's unemployment rate; a permanent authorization to eliminate the last-minute crises that characterized FSC; and greater use of general revenues for federal participation to avoid problems in the financing of the system, which in the most recent recessions created large debts for those states plagued by particularly high unemployment. (See the table at the end of this section.)

Long-term unemployment and the problems of dislocated workers persist even as economic expansion continues. This recognition has prompted many members of Congress and other policy makers to seek ways to change the UI system from a passive income maintenance approach into a positive worker adjustment strategy. One step in this direction is to combine UI with training. Public- and private-sector leaders in the Northeast-Midwest region long have supported permitting UI recipients to participate in retraining programs if this would hasten their reabsorption into the workplace. A 1970 federal law prohibits states from denying UI eligibility to those in training "with the approval of the state." Yet states vary widely in their administrative practices in this matter. JTPA clearly affirms the policy thrust to combine UI and training. Also, the administration's request for a $74 million supplemental appropriation for JTPA's dislocated workers program assumes that UI benefits will be available to workers while they are in training. (See the tables on long-term unemployment and dislocated workers at the end of this section.)

Another alternative in the UI system is work sharing, in which workers on partial layoff receive partial UI benefits to compensate for lost working hours. Members of Congress will continue to explore ways to create incentives for the states to make UI a positive tool for reemployment. Meanwhile, the administration also has proposed a budget increase of $10 million for research and demonstration projects to explore "alternative uses of unemployment compensation to expedite the return of the potentially long-term unemployed to work."

## C. Education

The administration has requested $15.2 billion in new budget authority for education programs, a 14.5 percent cut from the fiscal 1986 post-sequestration level of $17.7 billion. Savings would result primarily from major changes in the Vocational Education program and in student financial assistance programs such as Guaranteed Student Loans (GSL), Pell Grants, and National Direct Student Loans.

The Vocational Education program has been targeted for a $210 million rescission in fiscal 1986 and a further cut of $195 million, or 32 percent, in fiscal 1987. These savings would be achieved by eliminating all grants to states for general improvement, innovation, and program expansion. Beginning in fiscal 1986, federal funding for vocational education would be limited to programs for the handicapped, the economically disadvantaged, and other special needs students. In fiscal 1986, states in the Northeast and Midwest are expected to receive $243 million for Vocational Education, 43 percent of the national total. (See the table at the end of this section.)

In general, other elementary and secondary education programs -- such as Chapter I, the Education for Disadvantaged Children program, and Chapter II, the State Block Grant Program -- would be maintained in 1987 at or near fiscal 1986 levels prior to sequestration. In fiscal 1986, states in the Northeast and Midwest are expected to receive $1.5 billion or nearly 40 percent of the funds available under Chapter I, and $201 million or 43 percent of the funds distributed under Chapter II. (See the table at the end of this section.) As in previous years, a major exception would be the Impact Aid program, which provides assistance to school districts near federal installations. The administration proposes to reduce Impact Aid by over $115 million, or 17 percent, from the fiscal 1986 post-sequestration level of $663 million.

Of the $6.1 billion requested in budget authority for postsecondary student financial assistance programs in fiscal 1987, $2.3 billion would go for the GSL program. This is $1.01 billion or 30 percent below the fiscal 1986 post-sequestration level. Changes the administration proposes for the GSL program, which subsidizes and guarantees low-interest loans to students and their parents, include the replacement of subsidized interest rates (currently 8 percent for student loans) with the prevailing Treasury rate, and a requirement that students begin paying interest on the loans immediately upon receipt. Current policy allows students a grace period of up to nine months after they leave school before they begin payments and accrue interest.

Also, for the third consecutive year, the administration is proposing legislation that would force states and other guarantee agencies to assume partial liability for defaults on new loans. The level of federal liability would be reduced from the current 100 percent to 90 percent on any new loans made, and would drop to 80 percent or 70 percent based on the ratio of each agency's cumulative net defaults on its loans in repayment.

An immediate and growing concern is the uncertainty as to how many lending institutions will continue to participate in the GSL program due to changes assumed by the Gramm-Rudman-Hollings legislation and originally scheduled to take effect on March 1. Unlike most other programs in the budget, which will receive an across-the-board cut, special rules apply to the GSL program. The deficit-cutting measure required two changes: 1) raising the cost to new borrowers by charging students a processing fee of 5.5 percent of the total loan value, up from 5 percent, and 2) decreasing the special allowance provided to lenders for the first year of all new loans from 3.5 to 3.1 percent. The reduction of this special subsidy, which supplements the lower-than-market rates paid by students participating in the GSL program, threatens the willingness of lenders, particularly smaller lending institutions, to continue to process new student loan applications, given the higher market rate they can charge on commercial loans. Taken as a whole, the numerous modifications proposed would both directly reduce the number of students eligible to participate and, by increasing costs, discourage the participation of others as well. In fiscal 1986, students in the Northeast and Midwest borrowed over 56 percent of all funds lent under the GSL program. (See the table at the end of this section.)

Six other major federal student assistance programs, including the National Direct Student Loan program and the Pell Grant program, provide a combination of loans, grants, and subsidized work to low-income students. Under the president's proposed budget, it is estimated that these programs would provide 1.8 million or 34.7 percent fewer student awards in fiscal 1987 than the fiscal 1986 post-sequestration level. In addition, students and their families in general would be required to assume a larger share of their educational costs.

The administration proposes major changes in the National Direct Student Loan program (formerly the National Defense Student Loan program) -- the oldest need-based postsecondary student aid program -- which has provided low-interest loans for needy students through a revolving fund since 1958. As a cost-saving measure, the administration would utilize the revolving fund to provide unsubsidized loans to this same population, charging students interest rates of 3 percent over the prevailing 91-day Treasury bill rate.

The administration is proposing to maintain the Pell Grant program at the fiscal 1986 pre-sequestration level of $3.43 billion. It is estimated, however, that this would be $370 million short of the roughly $3.8 billion required to fund this program fully under current law. To compensate for this shortfall, the administration plans to implement provisions currently authorized under the law to reduce or eliminate grants for less needy students. As a result, the administration estimates that 560,000 or 20 percent fewer students would be able to participate in the Pell Grant program in fiscal 1987, compared with the number that could be served at the fiscal 1986 post-sequestration level.

A serious problem facing the nation and region is the high rate of illiteracy in the United States. The Department of Education, in a document released on the day of the president's budget submission, cites a 1981 Census survey that revealed that 23 percent of children ages 5-17 are one or more years behind their appropriate educational level. In addition, the document cited a recent Department of Education study showing that nearly one-third of all high school seniors need remedial education assistance.

The federal government's current effort to address the basic skill needs of school-aged children is targeted almost exclusively to children in the first three grades. The main vehicle for addressing these skill deficiencies is the Chapter I Education for the Disadvantaged program, which the president proposes to fund in fiscal 1987 at $3.69 billion, the fiscal 1986 pre-sequestration level. Funds in the Chapter I program could be utilized to provide remedial education to both elementary and secondary school pupils. However, the current demand for this program far exceeds the funds available, which are being used exclusively for very young children. At this time, virtually no federal education funds are being expended to address the serious basic skill deficiencies of older children. A proposal to assist disadvantaged junior and senior high school students who have not yet mastered the basic skills is discussed earlier in this section.

The Northeast-Midwest region has long benefitted from the presence of excellent institutions of higher education, both public and private. In fact, recent studies specifically tie the revitalization of New England's economy to its pool of highly educated workers and its comprehensive university and college system.

As the reauthorization of the Higher Education Act continues, Congress is reviewing the various federal education assistance programs and evaluating the extent to which they meet the needs of the population. The sharply rising cost of postsecondary education makes the availability of college loans a growing influence on decisions by many students whether to continue their studies.

Another major student financial aid issue is the ability of the various federal aid programs to meet the needs of the non-traditional student. Specifically, the Pell Grant program can play a useful role in continuing to provide vocational education opportunities to those without a high school degree and in helping students -- particularly single parents and older workers -- who want to enroll in only one or two courses per semester. Current criteria requiring Pell Grant participants to take a certain number of courses each semester are biased against the non-traditional student, who may not be able to manage a full course load given other responsibilities. In addition, the House already has passed its version of the higher education bill, which includes legislation developed by the Northeast-Midwest Congressional Coalition under the leadership of Representatives Dennis E. Eckart (D-OH) and Claudine Schneider (R-RI) and by Senator Dan Quayle (R-IN) that would reform the eligibility requirements to better enable dislocated workers to participate in the Pell Grant and GSL programs.

In the context of reauthorization of the Higher Education Act, attention also has been focused on the positive effects universities and colleges have had on economic revitalization in various areas around the country, particularly the Northeast and Midwest. Significant interest exists in Congress in fostering continued and increased cooperative efforts between institutions of higher education and businesses. Title VI of the Higher Education Act promotes trade development through university-business partnerships. This program, which funds international centers at universities to increase understanding among local businesses of foreign countries and trade markets, would be eliminated under the administration plan.

Title VII of the Higher Education Act also is of potential value to universities and colleges within the region, which tend to be older and in greater need of maintenance. This program, which provides loans to academic institutions to construct and renovate their facilities, would be funded at only $9.6 million for fiscal 1986 after sequestration. As in past years, the president has proposed no funds for Title VII.

## Elementary and Secondary Education Statistics: 1984-1985

| | Expenditure per Pupil (in dollars) | | Percent of Total Expenditure | | Percent of Persons Over 25 Completing High School |
|---|---|---|---|---|---|
| Region and State | Federal | State and Local | Federal | State and Local | |
| **New England** | | | | | |
| Connecticut | 239 | 4,580 | 5.0 | 95.1 | 70.3 |
| Maine | 245 | 2,975 | 7.6 | 92.4 | 68.7 |
| Massachusetts | 239 | 4,074 | 5.5 | 94.4 | 72.2 |
| New Hampshire | 108 | 3,293 | 3.2 | 97.6 | 72.3 |
| Rhode Island | 171 | 3,963 | 4.1 | 95.8 | 61.1 |
| Vermont | 252 | 3,834 | 6.2 | 93.8 | 71.0 |
| Average | 225 | 3,998 | 5.3 | 94.6 | 70.5 |
| **Mid-Atlantic** | | | | | |
| Delaware | 367 | 4,308 | 7.8 | 92.1 | 68.6 |
| Maryland | 252 | 4,197 | 5.7 | 94.3 | 67.4 |
| New Jersey | 192 | 5,446 | 3.4 | 96.6 | 67.4 |
| New York | 215 | 5,181 | 4.0 | 96.0 | 66.3 |
| Pennsylvania | 143 | 4,271 | 3.2 | 96.8 | 64.7 |
| Average | 197 | 4,857 | 3.9 | 96.1 | 66.2 |
| **Midwest** | | | | | |
| Illinois | 275 | 3,851 | 6.7 | 93.3 | 66.5 |
| Indiana | 134 | 3,046 | 4.2 | 95.8 | 66.4 |
| Iowa | 200 | 3,468 | 5.5 | 94.6 | 71.5 |
| Michigan | 158 | 3,588 | 4.2 | 95.8 | 68.0 |
| Minnesota | 162 | 3,792 | 4.1 | 95.9 | 73.1 |
| Ohio | 185 | 3,459 | 5.1 | 94.9 | 67.0 |
| Wisconsin | 152 | 3,793 | 3.9 | 96.2 | 69.6 |
| Average | 188 | 3,580 | 5.0 | 95.0 | 68.0 |
| Missouri | 203 | 3,074 | 6.2 | 93.8 | 63.5 |
| Average with Missouri | 189 | 3,537 | 5.1 | 94.9 | 67.6 |
| **Northeast** | 204 | 4,649 | 4.2 | 95.8 | 67.1 |
| **Midwest*** | 188 | 3,580 | 5.0 | 95.0 | 68.0 |
| **Northeast and Midwest*** | 196 | 4,107 | 4.6 | 95.4 | 67.6 |
| **South** | 284 | 2,945 | 8.8 | 91.2 | 59.7 |
| **West** | 235 | 3,347 | 6.5 | 93.5 | 73.2 |
| **South and West** | 263 | 3,138 | 7.7 | 92.3 | 65.6 |
| **U.S. Average**[1] | 235 | 3,535 | 6.2 | 93.8 | 66.5 |

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*Regional averages do not include Missouri figures; they are included under West.

[1] U.S. averages do not include Puerto Rico or the Territories.

SOURCES: Staff calculations from National Education Association, Estimates of School Statistics 1984-1985 (Washington, D.C., 1985); U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States: 1985 (Washington, D.C., December 1984).

## Dislocated Workers: 1979-1984

| Region and State | Dislocated Workers: Total Displaced: Number (in thousands) | Total Displaced: Percent of U.S. Total | Reemployed: Number (in thousands) | Reemployed: Percent of U.S. Total | Still Unemployed: Number (in thousands) | Still Unemployed: Percent of U.S. Total | Not in Labor Force: Number (in thousands) | Not in Labor Force: Percent of U.S. Total | 1984 Labor Force: Percent of U.S. Total |
|---|---|---|---|---|---|---|---|---|---|
| **New England** | | | | | | | | | |
| Connecticut | 74 | 1.45 | 53 | 1.73 | 12 | 0.92 | 9 | 1.23 | 1.47 |
| Maine | 25 | 0.49 | 16 | 0.52 | 3 | 0.23 | 6 | 0.82 | 0.49 |
| Massachusetts | 105 | 2.06 | 64 | 2.09 | 26 | 2.00 | 14 | 1.91 | 2.69 |
| New Hampshire | 22 | 0.43 | 15 | 0.49 | 1 | 0.08 | 6 | 0.82 | 0.46 |
| Rhode Island | 25 | 0.49 | 17 | 0.56 | 4 | 0.31 | 4 | 0.54 | 0.43 |
| Vermont | 9 | 0.18 | 6 | 0.20 | 1 | 0.08 | 2 | 0.27 | 0.23 |
| Total | 260 | 5.11 | 171 | 5.59 | 47 | 3.61 | 41 | 5.59 | 5.77 |
| **Mid-Atlantic** | | | | | | | | | |
| Delaware | 13 | 0.26 | 9 | 0.29 | 2 | 0.15 | 2 | 0.27 | 0.27 |
| Maryland | 91 | 1.79 | 66 | 2.16 | 17 | 1.31 | 8 | 1.09 | 1.98 |
| New Jersey | 157 | 3.08 | 101 | 3.30 | 45 | 3.46 | 11 | 1.50 | 3.37 |
| New York | 271 | 5.32 | 133 | 4.35 | 89 | 6.84 | 49 | 6.68 | 7.13 |
| Pennsylvania | 366 | 7.19 | 193 | 6.31 | 92 | 7.07 | 81 | 11.04 | 4.83 |
| Total | 898 | 17.64 | 502 | 16.42 | 245 | 18.83 | 151 | 20.57 | 17.58 |
| **Midwest** | | | | | | | | | |
| Illinois | 367 | 7.21 | 157 | 5.14 | 156 | 11.99 | 54 | 7.36 | 4.94 |
| Indiana | 152 | 2.99 | 66 | 2.16 | 71 | 5.46 | 15 | 2.04 | 2.31 |
| Iowa | 103 | 2.02 | 60 | 1.96 | 30 | 2.31 | 13 | 1.77 | 1.25 |
| Michigan | 289 | 5.68 | 158 | 5.17 | 69 | 5.30 | 62 | 8.45 | 3.84 |
| Minnesota | 89 | 1.75 | 59 | 1.93 | 18 | 1.38 | 12 | 1.63 | 1.96 |
| Ohio | 265 | 5.21 | 149 | 4.87 | 75 | 5.76 | 41 | 5.59 | 4.49 |
| Wisconsin | 132 | 2.59 | 91 | 2.98 | 28 | 2.15 | 13 | 1.77 | 2.11 |
| Total | 1,397 | 27.44 | 740 | 24.21 | 447 | 34.36 | 210 | 28.61 | 20.91 |
| Missouri | 144 | 2.83 | 91 | 2.98 | 33 | 2.54 | 20 | 2.72 | 2.09 |
| Totals with Missouri | 1,541 | 30.27 | 831 | 27.19 | 480 | 36.90 | 230 | 31.33 | 23.00 |
| **Northeast** | 1,158 | 22.75 | 673 | 22.02 | 292 | 22.44 | 192 | 26.16 | 23.35 |
| **Midwest*** | 1,397 | 27.44 | 740 | 24.21 | 447 | 34.36 | 210 | 28.61 | 20.91 |
| **Northeast and Midwest*** | 2,555 | 50.19 | 1,413 | 46.22 | 739 | 56.80 | 402 | 54.77 | 44.26 |
| **South** | 1,424 | 27.97 | 939 | 30.72 | 297 | 22.83 | 185 | 25.20 | 31.27 |
| **West** | 1,112 | 21.84 | 705 | 23.06 | 265 | 20.37 | 147 | 20.03 | 24.46 |
| **South and West** | 2,536 | 49.81 | 1,644 | 53.78 | 562 | 43.20 | 332 | 45.23 | 55.73 |
| **U.S. Total** | 5,091 | 100.00 | 3,057 | 100.00 | 1,301 | 100.00 | 734 | 100.00 | 100.00 |

*Regional totals do not include Missouri figures; they are included under West.

SOURCES: Staff calculations from U.S. Department of Labor, Bureau of Labor Statistics, "Employment Status of Displaced Workers by State," January 1984; Employment and Earnings (Washington, D.C., 1985).

## Long-Term Unemployment: 1984
(15 weeks or more)

| Region and State | Average Number of Unemployed (in thousands) | Average Number of Long-Term Unemployed (in thousands) | Long-Term as a Percent of State Unemployment | Percent of National Long-Term Unemployment |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | 77 | 21 | 27.3 | 0.8 |
| Maine | 34 | 10 | 29.4 | 0.4 |
| Massachusetts | 145 | 41 | 28.3 | 1.5 |
| New Hampshire | 22 | 6 | 27.3 | 0.2 |
| Rhode Island | 26 | 7 | 26.9 | 0.3 |
| Vermont | 14 | 3 | 21.4 | 0.1 |
| Total or Average | 318 | 88 | 27.7 | 3.2 |
| **Mid-Atlantic** | | | | |
| Delaware | 19 | 5 | 26.3 | 0.2 |
| Maryland | 121 | 39 | 32.2 | 1.4 |
| New Jersey | 236 | 70 | 29.7 | 2.6 |
| New York | 584 | 212 | 36.3 | 7.8 |
| Pennsylvania | 499 | 197 | 39.5 | 7.2 |
| Total or Average | 1,459 | 523 | 35.8 | 19.1 |
| **Midwest** | | | | |
| Illinois | 511 | 193 | 37.8 | 7.1 |
| Indiana | 226 | 88 | 38.9 | 3.2 |
| Iowa | 100 | 41 | 41.0 | 1.5 |
| Michigan | 488 | 181 | 37.1 | 6.6 |
| Minnesota | 141 | 48 | 34.0 | 1.8 |
| Ohio | 481 | 204 | 42.4 | 7.5 |
| Wisconsin | 176 | 62 | 35.2 | 2.3 |
| Total or Average | 2,123 | 817 | 38.5 | 29.9 |
| Missouri | 172 | 61 | 35.5 | 2.2 |
| Total with Missouri | 2,295 | 878 | 38.3 | 32.1 |
| **Northeast** | 1,777 | 611 | 34.4 | 22.3 |
| **Midwest*** | 2,123 | 817 | 38.5 | 29.9 |
| **Northeast and Midwest*** | 3,900 | 1,428 | 36.6 | 52.2 |
| **South** | 2,614 | 733 | 28.0 | 26.8 |
| **West** | 2,024 | 574 | 28.4 | 21.0 |
| **South and West** | 4,638 | 1,307 | 28.2 | 47.8 |
| **U.S. Total or Average** | 8,538 | 2,735 | 32.0 | 100.0 |

*Regional totals do not include Missouri figures; they are included under West.

SOURCE: Staff calculations from U.S. Department of Labor, Bureau of Labor Statistics, unpublished data, 1985.

## The Youth Employment Problem

|  | 1984 Youth Population 16 to 19 Years Old |  |  | 1980 Youth Population 16 to 19 Year-Old High School Dropouts |  |  |  |
|---|---|---|---|---|---|---|---|
| Region and State | Total (in thousands) | Percent Employed[1] | 1984 Youth Unemployment Rate | Total (in persons) | Percent Employed[1] | Percent Unemployed | Percent Not in Labor Force |
| **New England** |  |  |  |  |  |  |  |
| Connecticut | 200 | 50.50 | 13.30 | 23,761 | 47.56 | 15.03 | 37.41 |
| Maine | 76 | 49.30 | 16.10 | 8,987 | 43.82 | 17.70 | 38.48 |
| Massachusetts | 386 | 56.00 | 9.60 | 38,957 | 47.88 | 14.86 | 37.26 |
| New Hampshire | 63 | 64.50 | 9.60 | 8,163 | 55.71 | 16.70 | 27.59 |
| Rhode Island | 58 | 55.10 | 15.20 | 9,986 | 52.09 | 15.29 | 32.65 |
| Vermont | 33 | 51.80 | 12.60 | 3,736 | 41.81 | 19.73 | 38.46 |
| Total or Average | 816 | 54.53 | 12.73 | 93,590 | 48.30 | 15.57 | 36.13 |
| **Mid-Atlantic** |  |  |  |  |  |  |  |
| Delaware | 39 | 49.80 | 16.00 | 5,496 | 35.72 | 17.52 | 46.76 |
| Maryland | 286 | 47.00 | 14.70 | 38,668 | 37.70 | 16.81 | 45.48 |
| New Jersey | 501 | 43.00 | 17.70 | 53,862 | 36.78 | 23.74 | 46.18 |
| New York | 1,181 | 33.90 | 19.40 | 136,203 | 31.29 | 16.60 | 52.12 |
| Pennsylvania | 769 | 41.60 | 19.90 | 83,462 | 37.48 | 17.92 | 44.59 |
| Total or Average | 2,776 | 43.06 | 21.93 | 317,691 | 34.70 | 17.06 | 48.23 |
| **Midwest** |  |  |  |  |  |  |  |
| Illinois | 706 | 42.90 | 22.20 | 109,101 | 37.80 | 17.53 | 44.67 |
| Indiana | 373 | 46.00 | 18.10 | 58,353 | 34.73 | 20.96 | 44.30 |
| Iowa | 184 | 48.90 | 16.30 | 18,870 | 41.98 | 17.40 | 40.61 |
| Michigan | 641 | 45.20 | 24.50 | 83,363 | 31.14 | 22.34 | 46.51 |
| Minnesota | 277 | 61.10 | 11.80 | 23,539 | 46.30 | 16.72 | 36.98 |
| Ohio | 678 | 42.50 | 20.90 | 84,714 | 33.72 | 18.81 | 47.47 |
| Wisconsin | 328 | 53.60 | 18.40 | 35,993 | 42.67 | 18.20 | 39.12 |
| Total or Average | 3,187 | 48.60 | 22.03 | 413,933 | 36.29 | 19.25 | 44.46 |
| Missouri | 287 | 46.00 | 16.00 | 51,114 | 39.45 | 19.33 | 41.22 |
| Total with Missouri | 3,474 | 48.28 | 18.53 | 465,047 | 38.48 | 18.91 | 42.61 |
| **Northeast** | 3,592 | 49.32 | 17.33 | 411,281 | 41.50 | 16.32 | 42.18 |
| **Midwest*** | 3,187 | 48.60 | 22.03 | 413,933 | 36.29 | 19.25 | 44.46 |
| **Northeast and Midwest*** | 6,779 | 48.96 | 19.68 | 825,214 | 38.90 | 17.79 | 43.32 |
| **South** | 4,582 | 37.91 | 23.41 | 881,590 | 41.77 | 12.74 | 45.49 |
| **West** | 3,370 | 47.82 | 16.07 | 542,677 | 43.90 | 15.60 | 40.50 |
| **South and West** | 7,952 | 42.86 | 19.74 | 1,424,267 | 42.83 | 14.17 | 42.99 |
| **U.S. Total or Average[2]** | 14,731 | 45.91 | 19.71 | 2,249,481 | 40.86 | 15.98 | 43.16 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Includes part-time and full-time employment.
[2] U.S. totals do not include Puerto Rico or the Territories.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, "Geographic Profile of Employment and Unemployment, 1984" Bulletin 2234, May 1985; and U.S. Department of Commerce, Bureau of the Census, General Social and Economic Characteristics: Census of Population, PC 80-1-C1, U.S. Summary, Table 239 (Washington, D.C., December 1983).

## Job Training Partnership Act: Program Years[1] 1985 and 1986[2]

(in thousands of dollars)

| Region and State | Title IIA Training for Disadvantaged 1985 | Title IIA Training for Disadvantaged 1986 | Title III Dislocated Workers 1985 | Title III Dislocated Workers 1986 | Title IIB Summer Youth 1985[3] | Title IIB Summer Youth 1986[4] | Wagner-Peyser Employment Service 1985[5] |
|---|---|---|---|---|---|---|---|
| **New England** | | | | | | | |
| Connecticut | 15,291 | 13,018 | 931 | 449 | 9,565 | 5,678 | 9,122 |
| Maine | 8,606 | 7,326 | 645 | 222 | 3,668 | 2,725 | 4,112 |
| Massachusetts | 32,564 | 27,723 | 2,478 | 696 | 19,557 | 9,367 | 15,968 |
| New Hampshire | 4,703 | 4,449 | 223 | 117 | 2,191 | 1,486 | 2,651 |
| Rhode Island | 7,024 | 5,980 | 545 | 149 | 3,509 | 2,404 | 3,029 |
| Vermont | 4,703 | 4,449 | 232 | 71 | 1,775 | 1,681 | 2,491 |
| Total | 72,891 | 62,945 | 5,054 | 1,704 | 40,265 | 23,341 | 37,373 |
| **Mid-Atlantic** | | | | | | | |
| Delaware | 4,703 | 4,449 | 317 | 121 | 1,827 | 1,587 | 2,132 |
| Maryland | 24,561 | 20,910 | 1,848 | 716 | 13,706 | 5,167 | 12,117 |
| New Jersey | 45,625 | 39,755 | 4,006 | 1,543 | 26,148 | 11,106 | 21,441 |
| New York | 125,613 | 122,566 | 10,647 | 4,663 | 59,582 | 42,712 | 62,913 |
| Pennsylvania | 104,638 | 97,885 | 11,135 | 4,477 | 42,883 | 34,721 | 34,899 |
| Total | 305,140 | 285,535 | 27,953 | 11,520 | 144,146 | 95,293 | 133,502 |
| **Midwest** | | | | | | | |
| Illinois | 103,492 | 99,918 | 10,738 | 4,853 | 48,222 | 28,603 | 35,679 |
| Indiana | 46,030 | 45,039 | 4,772 | 2,157 | 21,774 | 14,749 | 16,374 |
| Iowa | 18,178 | 20,182 | 1,738 | 973 | 7,904 | 7,117 | 10,426 |
| Michigan | 101,142 | 95,822 | 11,170 | 4,665 | 39,970 | 30,088 | 30,102 |
| Minnesota | 25,868 | 22,142 | 2,469 | 992 | 11,364 | 7,208 | 12,576 |
| Ohio | 98,942 | 91,306 | 11,236 | 4,648 | 42,076 | 33,890 | 32,880 |
| Wisconsin | 38,833 | 33,061 | 3,883 | 1,418 | 15,269 | 11,813 | 14,401 |
| Total | 432,485 | 407,470 | 46,006 | 19,706 | 186,579 | 133,468 | 152,438 |
| Missouri | 39,068 | 33,270 | 3,541 | 1,403 | 16,484 | 9,890 | 13,980 |
| Total with Missouri | 471,553 | 440,740 | 49,547 | 21,109 | 203,063 | 143,358 | 166,418 |
| **Northeast** | 378,031 | 348,510 | 33,007 | 13,224 | 184,411 | 118,634 | 170,875 |
| **Midwest*** | 432,485 | 407,470 | 46,006 | 19,706 | 186,579 | 133,468 | 152,438 |
| **Northeast and Midwest*** | 810,516 | 755,980 | 79,013 | 32,930 | 370,990 | 252,102 | 323,313 |
| **South** | 571,409 | 548,103 | 46,951 | 20,938 | 239,642 | 188,853 | 223,244 |
| **West** | 430,525 | 403,940 | 36,732 | 15,687 | 173,850 | 133,937 | 206,015 |
| **South and West** | 1,001,934 | 952,043 | 83,683 | 36,620 | 413,492 | 322,790 | 429,259 |
| **U.S. Total[6]** | 1,812,450 | 1,708,023 | 162,696 | 69,550 | 784,482 | 574,892 | 752,572 |

*Regional totals do not include Missouri figures; they are included under West.

[1] The Job Training Partnership Act shifted the funding for employment and training programs from a fiscal year to a program year basis. Program year 1985 runs from July 1, 1985, to June 30, 1986; program year 1986 runs from July 1, 1986, to June 30, 1987.

[2] Figures for program year 1985 are final; figures for program year 1986 represent projections for July 1, 1986, to June 30, 1987, based on U.S. Department of Labor calculations of each state's relative share of new budget authority, minus the scheduled 4.3 percent Gramm-Rudman-Hollings reduction.

[3] Figures include supplemental allotments for hold-harmless purposes totaling $100 million.

[4] Figures include new obligational authority of $602,690,139 and excess carryover of $70,969,190. Figures do not include an additional $108,682,350 that will be distributed to states to hold harmless, to the extent possible, those service delivery areas that do not receive an amount for 1986 at least equal to the amount they received in 1985. The 1986 summer youth program allotments are not subject to Gramm-Rudman-Hollings reductions because they are based on fiscal 1985 appropriations.

[5] Figures for 1986 are not yet available.

[6] U.S. totals do not include Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Department of Labor, Employment and Training Administration, Office of Financial Control and Management Systems, "PY 1985 Allotments for Programs Under Title II, Part A, Title III, and Title II," Part B, June 14, 1985; "PY 1986 JTPA Titles IIA and III Percentages to States," January 16, 1986; and "Revised Final PY 1985 Wagner-Peyser Allotments to States," August 13, 1985.

## Unemployment Compensation: Fiscal 1985
(in millions of dollars)

| Region and State | Regular Benefits | Extended Benefits | Federal Supplemental Compensation | Total | Percent of National Total |
|---|---|---|---|---|---|
| **New England** | | | | | |
| Connecticut | 174.7 | 0.0 | 6.9 | 181.6 | 1.19 |
| Maine | 67.0 | 0.0 | 5.2 | 72.2 | 0.47 |
| Massachusetts | 394.1 | 0.0 | 16.3 | 410.5 | 2.68 |
| New Hampshire | 18.8 | 0.0 | 0.9 | 19.7 | 0.13 |
| Rhode Island | 77.9 | 0.0 | 5.8 | 83.7 | 0.55 |
| Vermont | 31.6 | 0.0 | 1.5 | 33.1 | 0.22 |
| Total | 764.1 | 0.0 | 36.6 | 800.8 | 5.24 |
| **Mid-Atlantic** | | | | | |
| Delaware | 23.4 | 0.0 | 1.0 | 24.3 | 0.16 |
| Maryland | 204.0 | 0.0 | 8.8 | 212.8 | 1.39 |
| New Jersey | 595.4 | 0.0 | 0.0 | 595.4 | 3.89 |
| New York | 1,203.4 | 0.0 | 87.9 | 1,291.3 | 8.44 |
| Pennsylvania | 1,097.7 | 0.0 | 133.5 | 1,231.2 | 8.05 |
| Total | 3,123.9 | 0.0 | 231.2 | 3,355.0 | 21.93 |
| **Midwest** | | | | | |
| Illinois | 910.2 | 0.0 | 66.3 | 976.5 | 6.38 |
| Indiana | 193.5 | 0.0 | 17.7 | 211.2 | 1.38 |
| Iowa | 176.7 | 0.0 | 12.6 | 189.4 | 1.24 |
| Michigan | 640.4 | 0.0 | 27.7 | 668.2 | 4.37 |
| Minnesota | 302.4 | 0.0 | 16.5 | 318.9 | 2.08 |
| Ohio | 729.0 | 0.0 | 84.2 | 813.2 | 5.32 |
| Wisconsin | 413.0 | 0.0 | 31.3 | 444.3 | 2.90 |
| Total | 3,365.2 | 0.0 | 256.3 | 3,621.7 | 23.68 |
| Missouri | 187.7 | 0.0 | 8.3 | 196.0 | 1.28 |
| Total with Missouri | 3,552.9 | 0.0 | 264.6 | 3,817.7 | 24.96 |
| **Northeast** | 3,888.0 | 0.0 | 267.8 | 4,155.8 | 27.17 |
| **Midwest*** | 3,365.2 | 0.0 | 256.3 | 3,621.7 | 23.68 |
| **Northeast and Midwest*** | 7,253.2 | 0.0 | 524.1 | 7,777.5 | 50.85 |
| **South** | 3,188.6 | 10.3 | 251.9 | 3,451.0 | 22.56 |
| **West** | 3,770.4 | 14.4 | 282.5 | 4,067.9 | 26.59 |
| **South and West** | 6,959.0 | 24.7 | 534.4 | 7,518.9 | 49.15 |
| **U.S. Total**[1] | 14,212.2 | 24.7 | 1,058.5 | 15,296.4 | 100.00 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. totals do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services, *Quarterly Unemployment Insurance Compilation and Characteristics: Fourth Quarter FY 85*, Vol. 2.4 (Washington, D.C., December 1985).

## States with Outstanding Unemployment Insurance Debts as of December 31, 1985

(in thousands of dollars)

| Region and State | Interest-Free Advances | Interest-Bearing Advances[1] | Total Title XII Advances |
|---|---|---|---|
| **New England** | | | |
| Connecticut | 102,137 | 0 | 102,137[3] |
| Maine | 0 | 0 | 0 |
| Massachusetts | 0 | 0 | 0 |
| New Hampshire | 0 | 0 | 0 |
| Rhode Island | 0 | 0 | 0 |
| Vermont | 12,202 | 0 | 12,202[3] |
| Total | 114,339 | 0 | 114,339 |
| **Mid-Atlantic** | | | |
| Delaware | 0 | 0 | 0 |
| Maryland | 0 | 0 | 0 |
| New Jersey | 0 | 0 | 0 |
| New York | 0 | 0 | 0 |
| Pennsylvania | 1,116,785 | 221,890 | 1,338,674[3] |
| Total | 1,116,785 | 221,890 | 1,338,674 |
| **Midwest** | | | |
| Illinois | 1,124,267 | 0 | 1,124,267 |
| Indiana | 0 | 0 | 0 |
| Iowa | 0 | 0 | 0 |
| Michigan | 1,288,731 | 0 | 1,288,731[3] |
| Minnesota | 43,713 | 42,446 | 86,159[3] |
| Ohio | 648,282 | 328,157 | 976,439[3] |
| Wisconsin | 126,664 | 201,133 | 327,797 |
| Total | 3,231,657 | 571,736 | 3,803,393 |
| Missouri | 0 | 0 | 0 |
| Total with Missouri | 3,231,657 | 571,736 | 3,803,393 |
| **Northeast** | 1,231,124 | 221,890 | 1,453,013 |
| **Midwest*** | 3,231,657 | 571,736 | 3,803,393 |
| **Northeast and Midwest*** | 4,462,781 | 793,626 | 5,256,406 |
| **West** | 59,404 | 787,167 | 846,571[3] |
| **South** | 0 | 0 | 0 |
| **South and West** | 59,404 | 787,167 | 846,571 |
| **U.S. Total[2]** | 4,522,185 | 1,580,793 | 6,102,977 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Total for interest-bearing advances does not include unpaid interest.

[2] U.S. totals do not include Puerto Rico or the Territories.

[3] Indicates states making repayments through reduced employer credits as well as voluntary repayments.

SOURCE: U.S. Department of Labor, Unemployment Insurance Service, Division of State Program Management, Tax Administration Group, "Title XII Advances and Repayments as of December 31, 1985: Summary of the Federal Unemployment Account," Washington, D.C., December 1985.

## Selected Education Programs: Fiscal 1986[1]

(in thousands of dollars)

| Region and State | Elementary and Secondary<br>Chapter I | <br>Chapter II | Vocational |
|---|---|---|---|
| **New England** | | | |
| Connecticut | 39,778 | 5,725 | 6,179 |
| Maine | 16,767 | 2,367 | 3,327 |
| Massachusetts | 84,138 | 10,285 | 12,916 |
| New Hampshire | 8,277 | 2,367 | 2,999 |
| Rhode Island | 12,583 | 2,367 | 2,997 |
| Vermont | 8,331 | 2,367 | 2,162 |
| Total | 169,874 | 25,478 | 30,580 |
| **Mid-Atlantic** | | | |
| Delaware | 12,446 | 2,367 | 2,090 |
| Maryland | 56,483 | 8,025 | 9,731 |
| New Jersey | 109,513 | 13,992 | 14,441 |
| New York | 360,048 | 32,745 | 38,091 |
| Pennsylvania | 164,843 | 21,806 | 28,640 |
| Total | 703,333 | 78,935 | 92,993 |
| **Midwest** | | | |
| Illinois | 1,707,87 | 22,349 | 25,405 |
| Indiana | 51,998 | 11,129 | 14,724 |
| Iowa | 28,328 | 5,665 | 7,247 |
| Michigan | 138,412 | 18,522 | 23,279 |
| Minnesota | 40,047 | 8,025 | 10,025 |
| Ohio | 118,007 | 21,234 | 27,020 |
| Wisconsin | 50,865 | 9,331 | 12,173 |
| Total | 599,444 | 96,255 | 119,873 |
| Missouri | 52,867 | 9,432 | 12,563 |
| Total with Missouri | 652,311 | 105,687 | 132,436 |
| **Northeast** | 873,207 | 104,413 | 123,573 |
| **Midwest*** | 599,444 | 96,255 | 119,873 |
| **Northeast and Midwest*** | 1,472,651 | 200,668 | 243,446 |
| **South** | 1,159,226 | 149,900 | 194,660 |
| **West** | 738,264 | 114,026 | 130,846 |
| **South and West** | 1,897,490 | 263,926 | 325,556 |
| **U.S. Total**[2] | 3,370,141 | 464,594 | 569,002 |

*Regional totals do not include Missouri figures; they are included under West.

[1] The fiscal 1986 numbers reflect reductions assumed under Gramm-Rudman-Hollings.

[2] U.S. totals do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Education, Office of Planning, Budget and Evaluation, unpublished data, January 1986.

## Guaranteed Student Loan Commitments by State: Fiscal 1985

| Region and State | Number of Loans | Value (in thousands of dollars) | Percent of U.S. Total |
|---|---|---|---|
| **New England** | | | |
| Connecticut | 60,919 | 150,812 | 1.90 |
| Maine | 21,117 | 46,274 | 0.58 |
| Massachusetts | 129,217 | 331,533 | 4.17 |
| New Hampshire | 15,229 | 35,796 | 0.45 |
| Rhode Island | 19,237 | 47,035 | 0.59 |
| Vermont | 10,915 | 24,351 | 0.31 |
| Total | 256,634 | 635,801 | 8.01 |
| **Mid-Atlantic** | | | |
| Delaware | 6,194 | 14,901 | 0.19 |
| Maryland | 74,683 | 132,915 | 1.67 |
| New Jersey | 114,849 | 281,809 | 3.55 |
| New York | 493,562 | 1,128,739 | 14.22 |
| Pennsylvania | 269,824 | 611,619 | 7.70 |
| Total | 959,112 | 2,169,983 | 27.34 |
| **Midwest** | | | |
| Illinois | 211,364 | 467,778 | 5.89 |
| Indiana | 67,280 | 142,917 | 1.80 |
| Iowa | 56,092 | 117,775 | 1.48 |
| Michigan | 106,801 | 242,204 | 3.05 |
| Minnesota | 99,409 | 219,624 | 2.77 |
| Ohio | 108,982 | 260,529 | 3.28 |
| Wisconsin | 106,327 | 225,074 | 2.83 |
| Total | 756,255 | 1,675,901 | 21.12 |
| Missouri | 68,466 | 162,623 | 2.05 |
| Total with Missouri | 824,721 | 1,838,524 | 23.17 |
| **Northeast** | 1,215,746 | 2,805,784 | 35.35 |
| **Midwest*** | 756,255 | 1,675,901 | 21.12 |
| **Northeast and Midwest*** | 1,972,001 | 4,481,685 | 56.47 |
| **South** | 682,722 | 1,578,087 | 19.89 |
| **West** | 771,265 | 1,876,426 | 23.64 |
| **South and West** | 1,453,987 | 3,454,513 | 43.53 |
| **U.S. Total**[1] | 3,425,988 | 7,936,198 | 100.00 |

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*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. totals do not include Puerto Rico, the Territories, or national loan guarantor agencies.

SOURCE: Staff calculations from U.S. Department of Education, Guaranteed Student Loan Program Analysis Section, "Loan Volume Update," November 1985.

## SECTION THREE: NATURAL AND PHYSICAL RESOURCES

The Northeast-Midwest region, the traditional industrial heartland of the U.S., contains abundant natural and physical resources that provide economic opportunity and make it a desirable place to live. The region's natural resources include extensive farmland, minerals, forests, river systems, and the Great Lakes. The region also is traversed by a highly developed transportation network that connects raw materials, manufacturing sites, and markets. The best use of these resources requires a careful balance between economic development and environmental protection.

This chapter covers four aspects of the natural and physical resources in the region: water resources, environmental protection, agriculture (including forestry), and transportation. The administration proposes to phase out federal wastewater treatment grant programs, while increasing budget authority for flood control, navigation, and Western irrigation projects. Funding proposals for environmental protection vary. The budget for the Environmental Protection Agency, excluding wasterwater treatment, would rise slightly, while multi-agency Great Lakes programs would be halved. The National Acid Precipitation Assessment Program would remain unchanged. The Department of Energy's research program for technologies to burn coal more cleanly would be cut drastically, but a new, multi-year demonstration effort -- the Clean Coal Technology program -- would be funded at the level requested by Congress.

The president's budget proposal would reduce several Department of Agriculture programs at a time when the agricultural sector is experiencing its worst depression since the 1930s. FmHA ownership and disaster loans would be eliminated and the shift from insured (direct) loans to guaranteed loans would continue, while commodity price supports, research, education, and food stamps would be cut. U.S. Forest Service programs would be reduced, especially State and Private Forestry and acid rain research -- programs of importance to the region.

Sweeping changes are proposed for transportation systems. They include the elimination of funds for Amtrak, the abolition of the Interstate Commerce Commission, the sale of the Consolidated Rail Corporation (Conrail). There would be significant reductions in funds for federal highways and mass transit, which would be combined with several highway and bridge programs into a ground transportation block grant.

### A. Water Resources

Federal water resource programs include the construction and operating budgets of the U.S. Army Corps of Engineers, the Interior Department's Bureau of Reclamation (BuRec), the Soil Conservation Service (SCS) small watershed programs, Farmers Home Administration (FmHA) wastewater treatment grants for small communities, and Environmental Protection Agency (EPA) wastewater treatment grants for municipalities.

Cumulative budget authority for the five programs would decline from $6.205 billion in fiscal 1986 (assuming sequestration) to $6.067 billion in

## BUDGET SUMMARY
(in millions of dollars)

| | 1981 | 1985 | 1986 | 1987 | Percent Change 1986-1987 Nominal | Percent Change 1986-1987 Adjusted for Inflation |
|---|---|---|---|---|---|---|
| **Water Resources** | | | | | | |
| **Army Corps of Engineers** | | | | | | |
| Budget Authority | 3,074 | 2,932 | 2,788 | 3,287[2] | 17.90 | 13.25 |
| Outlays | 3,121 | 3,047 | 2,943 | 3,252[2] | 10.50 | 6.15 |
| **Bureau of Reclamation** | | | | | | |
| Budget Authority | 788 | 1,091 | 765 | 906 | 18.43 | 13.77 |
| Outlays | 766 | 951 | 986 | 959 | -2.74 | -6.57 |
| **Soil Conservation Service** | | | | | | |
| Budget Authority | 192 | 173 | 169[3] | 74 | -56.21 | -57.94 |
| Outlays | 205 | 222 | 228[3] | 193 | -15.35 | -18.68 |
| **Farmers Home Administration** | | | | | | |
| Budget Authority | 200 | 115 | 109 | 0 | -100.00 | -100.00 |
| Outlays | 269 | 176 | 183 | 162 | -11.48 | -14.96 |
| **EPA Wastewater Treatment Grants** | | | | | | |
| Budget Authority | 1,605 | 2,400 | 2,374 | 1,800 | -24.18 | -27.16 |
| Outlays | 3,881 | 2,900 | 2,820 | 2,395 | -15.07 | -18.42 |
| **Environmental Protection Agency** | | | | | | |
| **Superfund[1]** | | | | | | |
| Budget Authority | 75 | 606 | 860 | 1,050 | 22.09 | 17.28 |
| Outlays | 8 | 360 | 471 | 771 | 63.69 | 57.25 |
| **Regulation** | | | | | | |
| Budget Authority | 535 | 480 | 553 | 491 | -11.21 | -14.71 |
| Outlays | 559 | 441 | 521 | 532 | 2.11 | -1.91 |
| **Research** | | | | | | |
| Budget Authority | 250 | 189 | 214 | 193 | -9.81 | -13.37 |
| Outlays | 247 | 161 | 196 | 204 | 4.08 | -0.02 |
| **Salaries and Expenses** | | | | | | |
| Budget Authority | 562 | 666 | 655 | 688 | 5.04 | 0.90 |
| Outlays | 543 | 631 | 650 | 676 | 4.00 | -0.10 |

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[1] Budget authority and outlay figures for fiscal 1986 and 1987 assume reauthorization of Superfund program, which expired October 1, 1985.

[2] Includes approximately $465 million in existing and proposed user fees.

[3] Includes a proposed rescission for SCS watershed programs of $60 million in budget authority and $18 million in outlays for fiscal 1986.

**BUDGET SUMMARY** (continued)
(in millions of dollars)

| | 1981 | 1985 | 1986 | 1987 | Percent Change 1986-1987 Nominal | Percent Change 1986-1987 Adjusted for Inflation |
|---|---|---|---|---|---|---|
| **Department of Agriculture** | | | | | | |
| **Commodity Credit Corporation** | | | | | | |
| Budget Authority | 4,207 | 15,192 | 21,649[5] | 15,516 | -28.33 | -31.15 |
| Outlays | 4,061 | 17,683 | 20,349[5] | 16,186 | -20.46 | -23.59 |
| **Agriculture Credit Insurance Fund** | | | | | | |
| Budget Authority | 573 | 2,981 | 2,022 | 2,301 | 4.50 | .38 |
| Outlays | -228 | 2,782 | 2,126 | 1,879 | -11.62 | -15.10 |
| **Cooperative State Research Service** | | | | | | |
| Budget Authority | 201 | 304 | 279 | 246 | -11.83 | -15.30 |
| Outlays | 199 | 244 | 279 | 249 | -10.75 | -14.27 |
| **Extension Service** | | | | | | |
| Budget Authority | 304 | 344 | 328 | 140 | -57.32 | -59.00 |
| Outlays | 301 | 338 | 331 | 179 | -45.92 | -48.05 |
| **Food Stamps** | | | | | | |
| Budget Authority | 11,470 | 11,752 | 11,762[6] | 11,519 | -2.07 | -5.92 |
| Outlays | 11,253 | 11,701 | 11,667[6] | 11,504 | -1.40 | -5.28 |
| **U.S. Forest Service** | | | | | | |
| **National Forest System** | | | | | | |
| Budget Authority | 1,079 | 1,112 | 1,169[7] | 894 | -23.52 | -26.54 |
| Outlays | NA | 1,063 | 1,207[7] | 913 | -24.36 | -27.34 |
| **Construction** | | | | | | |
| Budget Authority | 248 | 112 | 213 | 195 | -8.45 | -12.06 |
| Outlays | NA | 273 | 234 | 206 | -11.97 | -15.43 |
| **Research** | | | | | | |
| Budget Authority | 108 | 114 | 120 | 111 | -7.50 | -11.14 |
| Outlays | NA | 113 | 119 | 113 | -5.04 | -8.78 |

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[4] Includes only rural water and waste disposal grants.

[5] Includes proposed supplemental of $72 million in budget authority and outlays.

[6] Assumes new legislation reducing budget authority and outlays by $69 million in fiscal 1986.

[7] Includes proposed supplemental of $166 million in budget authority and outlays for fiscal 1986.

## BUDGET SUMMARY (continued)
(in millions of dollars)

| | | | | | Percent Change 1986-1987 | |
|---|---|---|---|---|---|---|
| | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
| **U.S. Forest Service** | | | | | | |
| **State and Private Forestry** | | | | | | |
| Budget Authority | 71 | 58 | 55 | 25 | -54.55 | -56.34 |
| Outlays | NA | 57 | 56 | 30 | -46.43 | -48.54 |
| **Total** | | | | | | |
| Budget Authority | 2,113 | 2,116 | 2,153 | 1,735 | -19.41 | -22.59 |
| Outlays | 1,952 | 2,242 | 2,226 | 1,781 | -19.99 | -23.14 |
| **Transportation** | | | | | | |
| **Urban Mass Transportation Administration** | | | | | | |
| Budget Authority | 4,662 | 4,132 | 3,267 | 1,220 | -62.66 | -64.13 |
| Outlays | 3,856 | 3,356 | 3,470 | 2,300 | -33.72 | -36.33 |
| Sections 9 and 18 Formula Grants | | | | | | |
| Budget Authority | NA | 2,450 | 2,058 | 0 | -100.00 | -100.00 |
| Outlays | NA | 1,409 | 1,189 | 1,255 | 5.55 | 1.39 |
| Section 3 Discretionary Grants | | | | | | |
| Budget Authority | NA | 1,100 | 755[8] | 0 | -100.00 | -100.00 |
| Outlays | NA | 507 | 750[8] | 793[8] | 5.73 | 1.57 |
| Interstate Transfer Grants | | | | | | |
| Budget Authority | NA | 250 | 191 | 0 | -100.00 | -100.00 |
| Outlays | NA | 462 | 376 | 333 | -11.44 | -14.92 |
| **Transportation Block Grants** | | | | | | |
| Budget Authority | NA | NA | NA | 1,220[9] | NA | NA |
| Outlays | NA | NA | NA | 265 | NA | NA |
| **Federal-Aid Highways Trust Fund** | | | | | | |
| Budget Authority | 9,045 | 14,908 | 14,684 | 12,770 | -13.03 | -16.46 |
| Outlays | 8,222 | 12,584 | 13,665 | 13,184 | 1.09 | -2.89 |
| Obligation Ceiling | NA | (13,250) | (12,202) | (12,420) | 1.79 | -2.22 |

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[8] Includes a proposed rescission of $298 million in budget authority and $26 million in outlays in fiscal 1986 and $104 million in outlays in fiscal 1987.

[9] Assumes new authorization.

## BUDGET SUMMARY (continued)
(in millions of dollars)

|  |  |  |  |  | Percent Change 1986-1987 |  |
|---|---|---|---|---|---|---|
|  | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
|  |  |  | Transportation |  |  |  |
| **Saint Lawrence Seaway** |  |  |  |  |  |  |
| Outlays | -1,133 | -1,003 | 4,362 | 1,397 | -67.97 | -69.23 |
| Limitation on Administration Expenses | (1,730) | (1,792) | (1,834) | (1,990) | 8.51 | 4.23 |
| **Interstate Commerce Commission** |  |  |  |  |  |  |
| Budget Authority | 75,585 | 51,100 | 46,108 | 12,900 | -72.02 | -73.12 |
| Outlays | 74,190 | 50,150 | 49,245 | 13,861 | -71.85 | -72.96 |
| **Northeast Corridor Improvement Program** |  |  |  |  |  |  |
| Budget Authority | 350 | 28 | 0[10] | 0[10] | 0.00 | 0.00 |
| Outlays | 218 | 153 | 191 | 105 | -45.03 | -47.19 |
| **Amtrak** |  |  |  |  |  |  |
| Budget Authority | 881 | 684 | 562 | 0 | -100.00 | -100.00 |
| Outlays | 851 | 763 | 671 | 48 | -92.85 | -93.13 |

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[10] Includes a proposed rescission of $12 million in budget authority in fiscal 1986.

fiscal 1987. Outlays would drop from $7.160 billion to $6.691 billion. Deep cuts in some programs would be offset by increases in the Bureau of Reclamation budget and in user fee financing for the Corps of Engineers. Two elements of the administration's proposal are particularly noteworthy:

- o Budget authority for the Army Corps of Engineers would increase by $500 million, or nearly 18 percent, although much of the increase would be financed through expansion of local cost-sharing and enactment of new user fees.
- o The FmHA and SCS water programs would be phased out by fiscal 1987, and the EPA wastewater treatment grants program by 1990.

### Army Corps of Engineers

The proposed $500 million increase in the Corps budget would accommodate 19 new construction projects, including 12 flood control and five navigation projects, one reservoir and one beach erosion-control project. The proposal assumes that non-federal financing would increase from $96 million in fiscal 1986 to $456 million in fiscal 1987. Those revenues would come in part from expansion of local cost sharing to support individual projects, and in part through enactment of the Omnibus Water Resources Act (S. 1567), now pending before the Senate. S. 1567 would establish a tax of four cents per $100,000 of cargo loaded and unloaded at U.S. ports, and would phase in a doubling of the barge fuel tax from the current ten cents per gallon to 20 cents per gallon by 1997. H.R. 6, which has been approved by the House, includes a similar cargo tax to support harbor maintenance, but proposes no increase in the barge fuel tax. The cargo tax under S. 1567 would raise an estimated $227 million in fiscal 1987, or about 40 percent of the Corps harbor maintenance budget. Barge fuel tax receipts also would increase, from $51 million to $77 million in fiscal 1987, and by 1997 would offset 20 percent of the Corps' inland waterway costs.

Funding for the Corps has shrunk over the past few years because the administration and Congress have been unable to resolve the cost-sharing issue. The administration's endorsement of the user fee system proposed in S. 1567 greatly improves the prospects for reauthorization of the Corps budget, which would allow work to begin on long-deferred construction projects.

The Northeast-Midwest region received 21 percent of the Corps funding in fiscal 1985. The regional distribution may be explained in part by Corps expenditures for large-scale flood control projects in Southern states. For example, Louisiana received $230 million for flood control work in fiscal 1985, as much as the entire Northeast received for all Corps projects in the same year. (The Federal Water Resources Spending table at the end of this section shows the state-by-state and regional distribution of Corps, BuRec, SCS, and FmHa expenditures.) The user fees proposed in S. 1567 and H.R. 6 may help to revive Corps harbor and navigation projects proposed in the Northeast and Midwest but postponed for lack of authorization. For example, over one-third of the spending authorized for new navigation construction by H.R. 6 would be directed to projects in the region.

## Bureau of Reclamation

Budget authority for the Bureau of Reclamation would climb from $765 million in fiscal 1986 (assuming sequestration) to $906 million in fiscal 1987, while outlays would decline slightly from $986 million to $959 million. The Bureau of Reclamation, limited by law to operation in 17 Western states, provides federal subsidies for irrigation and industrial and urban water supply projects. Cost-sharing arrangements are negotiated on a project-by-project basis, with the local share usually financed through long-term, low-interest loans. The administration has not proposed uniform cost sharing for the BuRec program.

BuRec projects are funded from two sources: a special Reclamation Fund that collects revenues primarily from the sale and lease of federal land, water, and power, and general revenues. Although the Reclamation Fund raises adequate revenues to meet the cost of the entire BuRec program, statutes enacted in 1956 and 1968 require that funds for construction of Colorado River Basin projects come from general revenues. BuRec also relies on the Reclamation Fund to finance the agency's small loan program, despite the fact that in fiscal 1984 Congress repealed an old statute requiring that support for the loan program come from general revenues.

In fiscal 1987, BuRec will collect $930 million in Reclamation Fund revenues, of which only $612 million will support the BuRec budget. The balance of the BuRec program -- $276 million for Colorado River Basin construction costs and $39 million for the loan program -- will be financed from general revenues. The unspent revenues collected in fiscal 1987 will be added to the unobligated surplus in the Reclamation Fund, which will grow from $932 million in fiscal 1985 to a projected $1.304 billion in fiscal 1987. Despite the deficit crisis, the administration has not asked Congress to authorize the spending of Reclamation Fund revenues for the Colorado River projects, nor has it explained why BuRec continues to rely on general revenues to finance the loan program.

The BuRec program amounts to a national subsidy of water development programs limited exclusively to Western states. Years of federal subsidies have created the paradox that water sometimes is cheapest where it also is scarcest. Nebraska farmers pay as little as $1 per acre foot for federally subsidized water; water rates in El Paso and Albuquerque are less than half those in Newark and Boston. The BuRec program has been criticized for providing a limited geographic subsidy that underwrites the booming development of the Western economy by artificially underpricing the cost of water.

### SCS and FmHA

As in last year's budget, the administration proposes a phase-out of the SCS small watershed and FmHA rural water sewer grants programs. The administration argues that both programs -- which will have combined fiscal 1986 outlays of $411 million (assuming sequestration) -- are too small to affect national water policy, and could be undertaken by local governments. Congress has resisted past administration efforts to terminate these programs. In fiscal 1985, the Northeast and Midwest received 30 percent of the combined spending of these programs. The Northeast and Midwest each received roughly the same share of FmHA and SCS funds. (See the table at end of this section.)

### EPA Wastewater Treatment Grants

The administration proposes again this year to phase out EPA municipal wastewater grants. New budget authority would drop from $2.375 billion in fiscal 1986 (assuming sequestration) to $1.8 billion in fiscal 1987, and would be eliminated by 1990. Outlays would decline more slowly, dropping from $2.8 billion in fiscal 1987 to $1.8 billion in fiscal 1990 to cover obligations to complete previously authorized projects. The wastewater treatment grants program expired on October 1, 1985, but was reauthorized in the House and Senate Clean Water bills. Those bills have cleared the respective chambers, but have not moved to conference. In the meantime, Congress appropriated $2.4 billion for fiscal 1986, but will allow expenditures of only $600 million until the reauthorizing legislation is enacted.

The EPA wastewater treatment grants program is the largest source of federal funding for water quality needs. It is designed to help states and localities meet the objectives of the Clean Water Act. An EPA needs assessment survey estimated that $108.9 billion would be required from 1984 through the year 2000 to maintain progress in meeting federal water quality standards. The program provided a 55 percent federal matching grant for eligible projects in fiscal 1985. If it were maintained at current funding levels, the federal share of total treatment expenditures through the year 2000 would be $34 billion. The administration's proposed phase-out would reduce new appropriations to $6 billion from fiscal 1986 through fiscal 1990.

Both the House and Senate Clean Water bills (H.R. 8 and S. 1128) reauthorize the program through 1994, and would provide transitional grants to establish state revolving loan funds. These funds would be a source of capital for treatment expenditures after all federal contributions ceased in 1994. H.R. 8 authorizes a total expenditure of $21 billion in wastewater funds and grants to state revolving loan funds through 1994, while the Senate bill provides $18 billion for the same purpose.

In fiscal 1985, the Northeast-Midwest region received 53.5 percent of the allocations under the wastewater treatment grants program. The region has an estimated 54 percent of treatment needs through the year 2000, according to the EPA survey. (The wastewater treatment table at the end of this section details the distribution of funds on a state-by-state and regional basis.) The program has been credited with dramatic reductions in phosphorus pollution in the Great Lakes, which once threatened to eliminate aquatic life in Lake Erie. While the House bill preserves the current allocation formula, S. 1128 incorporates a revision that would result in a net loss to the eight states bordering the Great Lakes of $735 million between 1986 and 1990.

## B. Environmental Protection

This discussion covers the budget for the Environmental Protection Agency (excluding wastewater treatment grants); the Great Lakes programs of EPA, the National Oceanic and Atmospheric Administration (NOAA), and the Department of the Interior; the multi-agency acid rain task force; and the newly established Clean Coal Reserve administered by the Department of Energy.

### Environmental Protection Agency

Budget authority for EPA programs, excluding wastewater treatment, would rise from $2.25 billion in fiscal 1986 (assuming sequestration) to $2.35 billion in fiscal 1987. Most of the increase is reserved for the Superfund hazardous waste cleanup program, which would increase from the administration's post-sequestration budget proposal of $860 million in fiscal 1986 to $1.050 billion in fiscal 1987. The program expired at the end of 1985, and the conference committee has not resolved differences between the House and Senate reauthorization bills. Congress authorized expenditures of only $60 million for fiscal 1986 until reauthorization is complete. EPA Administrator Lee Thomas has asked for interim funding authority of approximately $860 million for fiscal 1986, to be financed largely by borrowing from general revenues until Congress completes the reauthorization process.

EPA plans to dismantle the program by April unless Superfund is reauthorized or Congress provides the interim funding requested by the agency. On January 31, Thomas wrote to Chairman Robert T. Stafford (R-VT) and other members of the Senate Environment and Public Works Committee, listing 31 sites where construction work already had stopped and identifying 18 of an estimated 75 where construction activity may be halted later this spring.

The differences between the House and Senate bills may be difficult to resolve before April. The House bill provides $10 billion over five years and is financed through a small increase in the chemical feedstock tax, a new waste-end tax, and a 12 cent per barrel tax on domestic and imported oil. The Senate bill provides $7.5 billion over five years financed largely through an excise tax on manufacturers. The House financing alternative rests on the concept that Superfund taxes ought to be tied to the hazardous wastes and products found at Superfund sites. For that reason, it is supported by many of the region's manufacturing industries, which generate relatively small amounts of waste and oppose general excise taxes as a means of financing hazardous waste cleanup. The administration has requested five-year funding of $5.3 billion. In addition to spending levels and the taxing mechanism, the conference will have to settle important program differences, such as whether to provide cleanup standards and schedules.

Budget authority for EPA's research and regulation programs would be cut from $766 million in fiscal 1986 (assuming sequestration) to $683 million, although outlays would increase slightly due to a carryover of fiscal 1985 funds. Air and water quality research and enforcement programs would be reduced by $16 million and $34 million. The administration proposes a slight reduction in EPA's various state grant programs, and would combine them into one pollution-control block grant.

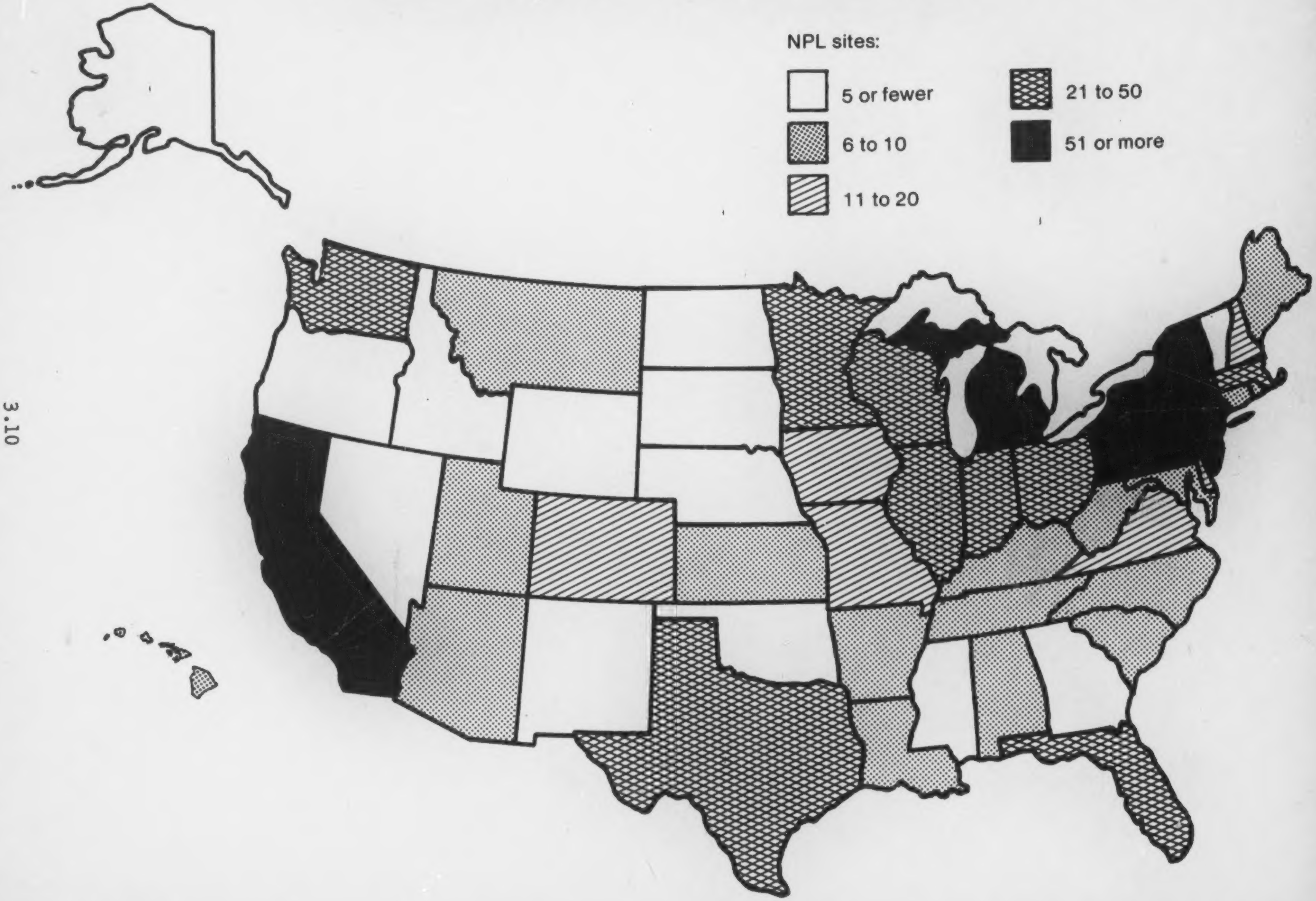
The Northeast and Midwest have 60 percent of the identified hazardous waste sites on EPA's National Priority List for cleanup. (The accompanying map shows the national distribution of priority sites.) Twenty-three of the 30 sites at which cleanup has stopped due to lack of funding are in the region. Six of these are in New Jersey, four in Michigan, three in Pennsylvania, two each in Massachusetts and New York, and one each in Rhode Island, Maine, Illinois, Ohio, Indiana, Wisconsin, and Iowa.

## Great Lakes

A combination of federal Great Lakes programs provides the information on which environmental decisions for the Lakes are based. These include the EPA Great Lakes National Program Office (GLNPO) in Chicago; the EPA Large Lakes Laboratory in Grosse Ile, Michigan; NOAA's Great Lakes Environmental Research Laboratory (GLERL) in Ann Arbor, Michigan; the Coastal Zone Management and Sea Grant programs, also administered by NOAA; and the Department of the Interior's Great Lakes Fisheries Research Laboratory in Ann Arbor. The budget for these combined Great Lakes programs would be cut from the fiscal 1986 post-sequestration spending level of $25.6 million to $12.1 million. Fiscal 1986 spending is compared to the fiscal 1987 request for these programs in the Great Lakes Programs table.

Again this year, the administration proposes to terminate the Sea Grants program, which provides marine research and extension services through universities, and the Coastal Zone Management grants to eligible states, which help support coastal environmental protection programs. As in last year's budget, EPA's Large Lakes Lab is reduced by more than half. However, the administration is requesting $3 million for GLERL, which in prior years it sought to terminate.

# National Priority List (Superfund) Sites


NPL sites:
5 or fewer
6 to 10
11 to 20
21 to 50
51 or more

The Great Lakes, with 95 percent of the nation's fresh surface water, represent one of the region's greatest natural resources. The information provided by the network of federal Great Lakes programs is essential for coordinated pollution-control planning for the Great Lakes ecosystem, and is important in evaluating the spread of toxic contaminants across state and national boundaries. While the combined federal and state investment in wastewater treatment has helped to reduce phosphorus pollution in the Great Lakes, toxic contaminants continue to pose a serious water quality problem. The U.S.-Canadian International Joint Commission has identified 28 "areas of concern" where unusually high levels of toxic contamination have persisted over the past ten years.

**Great Lakes Programs**
(in millions of dollars)

| Agency | Fiscal 1986 Expenditures | Fiscal 1987 Request |
|---|---|---|
| **Environmental Protection Agency** | | |
| Great Lakes National Program Office | 4.8 | 4.8 |
| Great Lakes Laboratory | 2.5 | 0.9 |
| **Department of Commerce/NOAA** | | |
| Great Lakes Environmental Research Laboratory | 3.6 | 3.0 |
| Sea Grants[1] | 6.2 | 0 |
| Coastal Zone Management[2] | 5.5 | 0 |
| **Department of the Interior** | | |
| Great Lakes Fisheries Laboratory | 3.2 | 3.4 |
| **TOTAL** | 25.6 | 12.1 |

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[1] Great Lakes states with Sea Grant colleges include Illinois and Indiana (shared program), Michigan, Minnesota, New York, Ohio, and Wisconsin.

[2] Great Lakes states receiving Coastal Zone Management Grants include Michigan, New York, Pennsylvania, and Wisconsin.

Both the House and Senate Clean Water bills incorporate initiatives developed by Senator Robert Kasten (R-WI) and Representative Henry Nowak (D-NY) that require EPA and NOAA to coordinate a multi-agency effort, including existing federal and state Great Lakes programs, to secure compliance with the U.S.-Canada Water Quality Agreement. The Kasten-Nowak provisions focus on one of the key objectives of the agreement -- the elimination of toxic discharges into the Lakes. H.R. 8 provides $65 million in funding over five years to carry out the Great Lakes initiative, while S. 1128 provides $50 million. The administration's budget does not include this initiative.

## Acid Rain and Clean Coal Technologies

Acid rain has been a contentious issue for several years. The administration's proposals relating to acid rain include funding for the National Acid

Precipitation Assessment Program (NAPAP), which studies the causes and effects of acid rain, and for the development of technologies to burn coal more cleanly and economically. A recent report by special envoys from the U.S. and Canada recommended that the U.S. undertake a greatly expanded acid rain research effort, including more vigorous development of clean coal technologies. Later this year, members of Congress are expected to propose legislation requiring reductions in atmospheric emissions. Should such legislation be enacted, its effects on the budget and the region could vary significantly, depending upon its design.

Under the administration's budget plan, funding for NAPAP, which is a multi-agency task force, would be maintained at $85 million in fiscal 1987. Funding proportions would change, however, with EPA's share rising by $6.4 million and the Forest Service share declining by $3.7 million from fiscal 1986.

The Department of Energy operates two main programs to develop technologies to burn coal more cleanly: the Fossil Energy Research and Development program and the Clean Coal Technology program. Budget authority for the coal portion of the Fossil Energy program, which conducts basic, long-term research on improved ways to use coal, would be cut from $246 million in fiscal 1986 (assuming sequestration) to $82 million. The administration also has requested $397.6 million in obligations from the Clean Coal Technology Reserve in the following increments: $99.4 million for fiscal 1986, $149.1 million for fiscal 1987, and $149.1 million for fiscal 1988. (See **Section Four: Energy** for more budget details.)

The 98th Congress originally authorized $750 million for the Clean Coal Technology Reserve to share the cost of demonstrating clean-burning coal technologies. Demonstration -- the final phase of research and development -- is necessary to give utilities the confidence to invest in new technologies. Clean coal technologies will help to reconcile the regional goals of environmental protection, low-cost electricity, and economic growth. Last year, 175 statements of interest from states, utilities, and research centers were submitted to the reserve. (See the Clean Coal Programs table at the end of this section.)

The $398 million appropriated for the reserve last year came through a transfer of budget authority from the Synthetic Fuels Corporation appropriated in fiscal 1980, and therefore exempt from sequestration. During the appropriations conference, however, the reserve was forced to absorb a substantial cut below the Senate figure of $750 million and the House figure of $500 million to gain administration approval.

Recently, Drew Lewis and William Davis, special envoys appointed by the U.S. and Canada, made several recommendations concerning acid rain. These recomendations will be considered at an upcoming meeting between President Reagan and Canadian Prime Minister Brian Mulroney. The Lewis-Davis report linked acid rain to property damage, leaching of metals into water supplies, and adverse effects on lakes and forests. However, it noted the high cost of controls, and called for a major new initiative to develop clean coal technologies.

The report acknowledged the dilemma posed by emission control strategies. An increase in the use of low-sulfur coal could result in a significant loss of employment in Eastern U.S. high-sulfur coal mining areas. Continued use of high-sulfur coal would require expensive control technologies (scrubbers) that could raise electricity rates substantially. Therefore, the report concludes, in addition to current programs, a five-year, $5 billion program is needed to complete development of economical clean coal alternatives.

Among the leading acid rain control bills introduced in the 98th Congress were S. 768 by Senator Robert T. Stafford (R-VT), and H.R. 3400 by Representatives Henry Waxman (D-CA), Gerry Sikorski (D-MN), and Judd Gregg (R-NH). Although none of these bills was reintroduced in the first session of the 99th Congress, several acid rain proposals are expected to be offered later this year.

S. 768 and H.R. 3400 would have required a 10 million ton reduction of the 26 million tons of sulfur oxides (SOx) emitted annually. S. 768 would have provided no direct financial assistance by the federal government for emission controls. H.R. 3400 would have offered a subsidy of 50 percent of the capital costs of abatement for the top 50 largest emitters, financed by a national tax on electricity. Representative Waxman's proposal this year is expected to be similar to H.R. 3400, except for providing loans rather than subsidies.

## C. Agriculture

The president's budget for the Department of Agriculture (USDA) requests an overall reduction of nearly $11 billion (19 percent) in budget authority and $9.6 billion (18 percent) in outlays in fiscal 1987 from fiscal 1986 post-sequestration levels. The budget reflects the administration's desire to decrease the reliance of the agricultural sector on the federal government, to turn over additional programs to state, local, or private operation, to eliminate program benefits "to those without real economic need," and to institute new user fees.

These budget reductions come at a time when the agricultural sector is experiencing its most severe crisis since the Great Depression. Low commodity prices, loss of export markets, and plummeting farmland values in many states have placed thousands of farmers in financial jeopardy and eroded their ability to repay land and operating loans. The worst of the crisis currently is concentrated in the Midwest, where record numbers of banks with large agricultural loan portfolios have failed or are in financial trouble. Agricultural lenders, especially the Farm Credit System and the Farmers Home Administration (FmHA), have billions of dollars of outstanding debt that may be uncollectable. A recent General Accounting Office study found that the average FmHA borrower had a debt-to-asset ratio of 83 percent, and that 20 percent of the borrowers technically were insolvent. The FmHA recently instituted a more restrictive credit policy that refuses additional credit to borrowers behind in loan repayments. The future of the agricultural sector is bleak. Farm bankruptcies and foreclosures have created a glut of farmland and farm equipment on the market, greatly reducing the assets of farmers still in viable financial condition.

The USDA administers a variety of programs that provide direct and indirect assistance to the agricultural sector. These programs were established to encourage the production of adequate supplies of food and fiber and assure reasonable prices for consumers. They also are supposed to assure farmers a reasonable income and support traditional values associated with the family farm and rural living. The argument that agricultural production is unique relative to other industries has led to extensive government involvement in the farm sector. Since the 1920s, the federal government has instituted many different kinds of programs to stabilize farm commodity prices and increase farm income to levels comparable to other economic sectors.

In recent years, American agriculture has been plagued by chronic oversupply and sagging exports. The result has been increasing market instability. The Food Security Act of 1985 (the farm bill) lowers the floors of price supports and income support rates in an effort to reduce production incentives, create a stronger market orientation in farm policy, and reduce federal spending. The Secretary of Agriculture is given more discretion to implement optional programs aimed at improving market competitiveness. At least in the short run, these policies will reduce farm income at a time when many farmers are suffering from heavy debt loads due to historically high real interest rates and declining asset values.

## Commodity Price Support Programs

Commodity programs administered through the Commodity Credit Corporation (CCC) currently constitute the single largest portion of federal expenditures in the agriculture sector. Commodity programs are entitlement programs; any farmer who meets the program requirements is eligible for price and income supports. Low market prices and the payment-in-kind program have resulted in high CCC outlays in recent years. Net CCC outlays (detailed in the table below) are expected to hit a record high of $20.3 billion in fiscal 1986, while fiscal 1987 outlays are projected at $16.2 billion.

**CCC Net Outlays by Commodity**
(in millions of dollars)

| Commodity | 1985 | 1986 | 1987 |
|---|---|---|---|
| Feed Grains | 5,211 | 8,535 | 5,824 |
| Wheat | 4,691 | 2,862 | 2,981 |
| Rice | 989 | 961 | 1,018 |
| Cotton, Upland | 1,553 | 1,913 | 1,914 |
| Tobacco | 455 | -39 | -130 |
| Dairy | 2,085 | 1,787 | 1,556 |
| Soybeans | 711 | 1,495 | 155 |
| Honey | 81 | 82 | 74 |
| Wool | 109 | 119 | 114 |
| Other | 1,798 | 3,048 | 3,089 |
| Sequestration Under P.L. 97-197 | -- | -414 | -409 |
| TOTAL | 17,683 | 20,349 | 16,186 |

SOURCE: U.S. Department of Agriculture, 1987 Budget Summary (Washington, D.C., February 1986).

The president's budget request assumes that the Secretary of Agriculture will use the authority provided in the farm bill to reduce outlays by lowering price support loan rates substantially. Estimates of fiscal 1986 and fiscal 1987 outlays project that farmers will receive over $2 billion in advance deficiency payments in 1986. Deficiency payments are direct farm income support payments based on "target prices" set by the farm bill. The budget proposal also assumes that advance payments will not be allowed in fiscal 1987, and that lower loan rates will decrease commodity loan forfeitures and increase exports.

Commodity program outlays covering the 1986 crop year will occur in both fiscal 1986 and fiscal 1987. Therefore, the $823 million scheduled to be sequestered in fiscal 1986 from commodity program net outlays tentatively has been split, with $414 million credited against fiscal 1986 outlays and $409 million against fiscal 1987. Deficiency payments to producers for the 1986 crop year would be cut by 4.3 percent. Sequestration would affect the dairy program immediately; dairy payments would be reduced 4.3 percent, or 50 cents per hundredweight. This cut essentially would achieve the reduction in milk price supports scheduled for October 1987.

Because the CCC is virtually out of funds, the president's budget requests urgent action by Congress to grant the CCC "permanent indefinite" authority for reimbursement for unrecoverable outlays directly from the Treasury, rather than through the appropriations process. Such a request was rejected last year. In fiscal 1985, $6.2 billion of CCC outlays went to states in the Northeast and Midwest, primarily through commodity program payments and dairy purchases. (See the table on Farm Program Expenditures at the end of this section for state-by-state and regional data.)

## Agricultural Credit Programs

The Farmers Home Administration is the second largest source of farm program expenditures. Farm loans comprise the bulk of FmHA expenditures. The administration proposes legislative changes to encourage private-sector funding by offering $2.5 billion in loan guarantees and $1.5 billion in direct (insured) federal loans for farm operations. Federal funds now available for ownership loans would be transferred to the operating loan program. In contrast, 1986 operating loan levels included $1.7 billion in guarantees and $1.5 billion in direct loans. The shift toward guaranteed loans is consistent with the Food Security Act. The administration's request also would eliminate all FmHA disaster loans. Current law, however, authorizes $3.48 billion for operating loans in 1987 -- $1.305 billion for insured loans and $2.175 billion for loan guarantees.

The farm bill also authorizes $520 million for ownership loans in fiscal 1987 -- $195 million for insured loans and $325 million for loan guarantees. The president's request would preserve the $185 million authorized for fiscal 1987 for an interest rate buy-down program for guaranteed lending. It also would impose a one percent origination fee on direct loans, which would provide about $14 million in additional revenue. In fiscal 1985, the Northeast-Midwest region received 40 percent of FmHA expenditures for these programs.

## Research and Education

The Cooperative State Research Service (CSRS) and the Extension Service are the main USDA research and education efforts at the state and local level. The CSRS administers several programs that fund research at state agricultural experiment stations, land-grant colleges, and other eligible educational institutions. The administration proposal would provide $246 million in budget authority, a reduction of $33 million (11.7 percent) from fiscal 1986 funding of $279 million (assuming sequestration). Outlays would be reduced by $29.6 million (10.6 percent) to $249 million. The administration claims that some CSRS programs are duplicated elsewhere. Its stated preference is for investments in long-term research rather than applied research and product development, which it believes should be financed by private industry. In fiscal 1985, $98.3 million, or about 35 percent of available funds, was awarded to institutions in the Northeast and Midwest.

Federal funds are distributed through the Extension Service to states by statutory formula for use at the county and local level. The program disseminates USDA and land-grant college research and provides a wide range of assistance in home economics, community development, and 4-H youth programs. At present, federal funds constitute only one-third of the resources used by extension programs. The proposed cuts would reduce fiscal 1987 budget authority by 57 percent to $140 million from the fiscal 1986 post-sequestration level of $328 million. Outlays in fiscal 1987 are estimated at $179 million, down from the fiscal 1986 post-sequestration level of $331 million. These cuts would coincide with a time of severe economic distress in many rural communities. In fiscal 1985, the Northeast-Midwest region received $112 million, or about 35 percent, of Extension Service payments to states.

## Conservation Program

The president's budget request also would revamp soil and water conservation programs beginning in fiscal 1986. First priority will be given to the new Conservation Reserve authorized by the 1985 farm bill. The Conservation Reserve provides for long-term retirement of highly erodible land from production. The goal is to include 40 to 45 million acres in the reserve by 1990. The request asks funding of $190 million in fiscal 1986 and $550 million in fiscal 1987. This would allow about 5 million acres in 1986 and 10 million acres in 1987 to be put into the reserve.

Existing financial assistance and cost-sharing programs in the Soil Conservation Service and the Agricultural Stabilization and Conservation Service would be terminated; a rescission of $222 million is sought from these programs. Of the land eligible for inclusion in the Conservation Reserve, one-third is located in the Northeast-Midwest region.

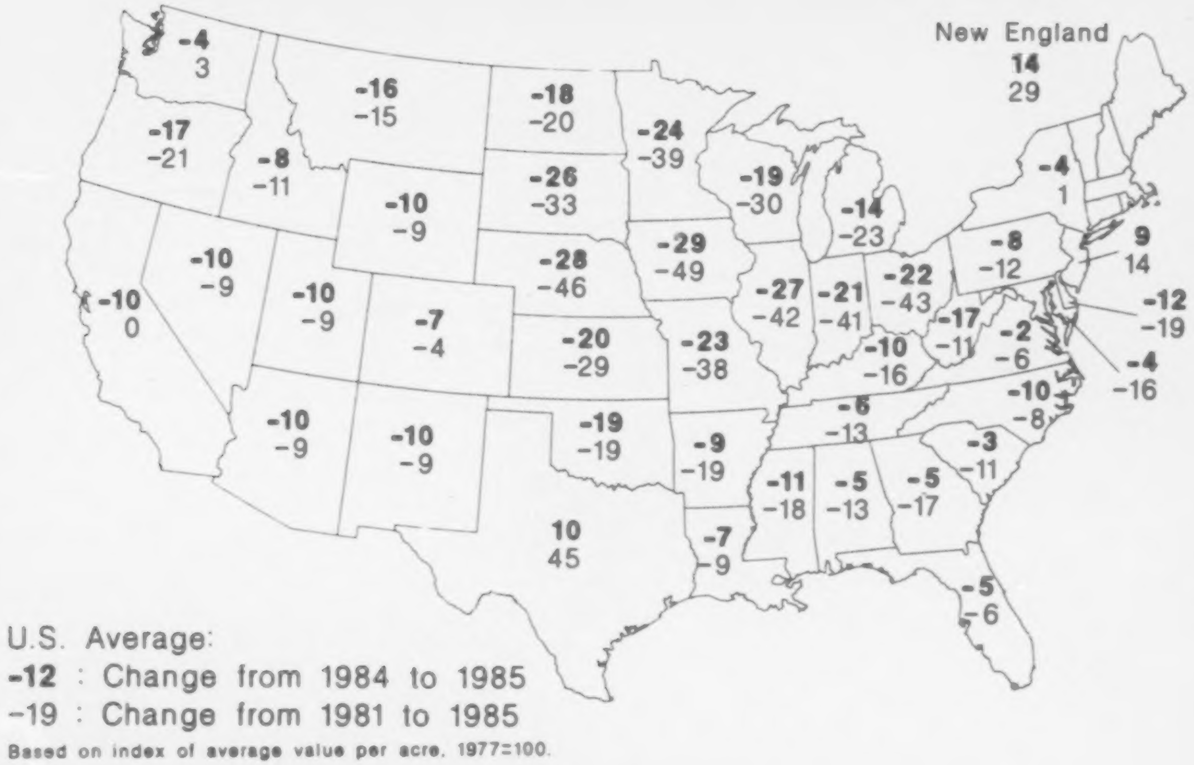
## Food Stamp Program

The Food Stamp Program would receive $11.5 billion in budget authority and outlays in fiscal 1987, down $244 million in budget authority and $164 million in outlays from fiscal 1986 post-sequestration levels. Under current law, program costs would rise to $12 billion because of a projected increase in the Thrifty Food Plan and expanded eligibility requirements. The budget assumes that unemployment will decline, resulting in fewer participants. In addition, the budget proposes legislative changes that would yield anticipated savings of $69 million in fiscal 1986 and $350.3 million in fiscal 1987. Fiscal 1987 savings would be offset partially by a $37 million increase in spending for Aid to Families with Dependent Children program recipients.

The administration has proposed changes in benefit calculations, including repeal of several provisions of the Food Security Act of 1985, scheduled to become effective on May 1, 1986, that expand program eligibility. It also would count the stipends and earnings of participants in the Job Training Partnership Act program as income and reduce reimbursement for administrative costs. It would require states to cover all payments over a 5 percent error limit. The new law would establish a universal work requirement for employable food stamp recipients, and would modify the rules regarding treatment of energy assistance in calculating benefits. Nearly 8.7 million households in the Northeast-Midwest region -- 45 percent of the total -- receive food stamps. (For state-by-state and regional numbers, see the table at the end of this section.)

Agriculture is a vital element in the Northeast-Midwest economy. Dairy products are an important agricultural commodity in every state in the region; the Midwestern states are among the nation's leading producers of beef, hogs,

## Change in Average Value of Farm Real Estate per Acre, 1984-85 and 1981-85



U.S. Average:
**-12** : Change from 1984 to 1985
-19 : Change from 1981 to 1985

Based on index of average value per acre, 1977=100.

SOURCE: U.S. Department of Agriculture, Economic Research Service, *Agricultural Land Values and Markets: Outlook and Situation Report* (Washington, D.C., 1985).

corn, soybeans, and other feed grains. Crop production is crucial to the region and supports a variety of dependent manufacturing industries and other businesses that process and transport farm goods. Because of this interdependence, the farm crisis has hit the Midwestern economy particularly hard. From 1984 to 1985, the Corn Belt states experienced the largest drop in farm values; Iowa, Missouri, Illinois, Indiana, and Ohio together averaged astounding declines of 25 percent. Farmland values in Minnesota, Wisconsin, and Michigan also declined 21 percent in just one year.

Farmers have used their land, which comprises the bulk of their assets, as collateral to secure new loans; plummeting land values, therefore, mean skyrocketing farm debt. Over 100,000 farms in the Northeast-Midwest region, including Missouri, have high-debt loans and negative cash flows. The Northeast-Midwest region contains half of the nation's farms with debt-to-asset ratios greater than 100 percent (technically insolvent), 53 percent of all farms with debt-to-asset ratios between 70 and 100 percent (very highly leveraged), and 49 percent of all farms with ratios between 40 and 70 percent (highly leveraged). As farmers in the region become more heavily indebted, lenders, already suffering losses on agricultural loans, will seek more secure borrowers. As the lender of last resort, the FmHA will be faced with even more borrowers. More farmers can be expected to enroll in commodity programs to protect their incomes or because lenders require them to demonstrate a better cash flow to qualify for loans. The severity of the farm crisis makes it likely that Congress will revisit the issues of farm credit and commodity programs this year.

**U.S. Forest Service**

Total budget authority requested for the U.S. Forest Service in fiscal 1987 is $1.74 billion, a 19 percent reduction from the post-sequestration level of $2.15 billion in fiscal 1986. Funds for the National Forest System and construction in the national forests, spent almost entirely in Western states, account for nearly two-thirds of the total proposed budget. The programs of greatest importance to the Northeast-Midwest region, equalling 8 percent of the total, are the Research program, which would be reduced from $120 million to $111 million, and the State and Private Forestry program, proposed for a cut of 55 percent, from $55 million to $25 million.

The Northeast and Midwest contain over one-third of the nation's commercial timberland and nearly half of its hardwood supply. In 1982, the forest products industry in the region employed 491,000 workers, down from 530,000 in 1977. A report by the Northeastern Area Office of the Forest Service found that improved use of these forest resources could create 300,000 new jobs in the region.

The Research program studies methods of protecting forest resources from such threats as Dutch elm disease, gypsy moth, and acid rain. It also studies ways to harvest and produce forest products through the Forest Products Laboratory in Madison, Wisconsin. The administration's requested reduction in the Research program would affect acid rain research, which would be cut from $11.2 million in fiscal 1986 to $8.5 million in fiscal 1987.

The administration has proposed to eliminate the State and Private Forestry grant program. This program helps states and private landowners, who own most of the forest inventories in the region, use their forest resources more productively. In response to a congressional directive, state foresters and the Northeastern Area Office of the Forest Service recommended a federal marketing initiative to increase exports of forest products overseas and reduce Canadian imports. Between 1980 and 1983, the U.S. trade balance in forest products shifted from a surplus of $500 million to a deficit of $2.2 billion. However, no funds for such an initiative are requested in the administration's budget.

## D. Transportation

The president proposes large reductions in fiscal 1987 for mass transit, and the elimination of all assistance to Amtrak. His request calls for the restructuring of all budget support for transportation, including the creation of block grants covering much of the highway program and the shift of further program responsibilities to the states.

Transit systems are the target of the transportation budget's cuts, which would have the greatest impact on the Northeast-Midwest region. Over $2 billion in federal general revenue now made available to these systems for operating and capital assistance for bus and rail would be eliminated. The remaining federal assistance to mass transit for fiscal 1987 is the $1.2 billion generated from a one cent per gallon tax on gasoline. Of these funds, $1.1 billion would be lumped together with $2.2 billion from highway programs to create a new ground transportation block grant program. Several other program areas are slated for major changes as well. The budget assumes that Conrail would be sold to Norfolk Southern for $1.2 billion. The Interstate Commerce Commission would be abolished.

### Mass Transit Assistance

Over $2 billion in mass transit operating and capital assistance for bus or subway systems currently is provided to local governments for use in urban areas and to states for use in non-urban areas. The formula distributing these funds is based upon revenue vehicle miles, route miles, population, and population density. Over 60 percent of the funds is awarded in the Northeast and Midwest, close to 90 percent of which is used in large urban areas. (See the table at the end of this section.) In many cases, transit systems would be unable to operate without this assistance.

The administration's proposal would terminate both this program, which is funded through general revenues, and the $1.1 billion discretionary grant program funded by the one cent gas tax. This $1.1 billion in revenue from the "transit penny" currently is used for capital grants for bus projects, rail modernization, and new subway or surface rail systems. Under the proposal, in 1987 gas tax revenues would be combined with $2.2 billion from the federal highway urban, non-urban, and non-primary bridge programs in a new $3.3 billion ground transportation block grant program. The new block grant could be used for the same highway and transit purposes as the programs it replaced, except that urban areas over 200,000 in population would not be permitted to use the block grant funds for operating expenses. Funds would be distributed using the same formulas as the programs being subsumed under the new block grant.

Because the new block grant would represent a $1.63 billion or 26.3 percent reduction in the highway and transit program appropriations from which it is derived, both urban transit and urban highway programs would face new cutbacks. Distribution by states to areas under 200,000 would permit reallocation among projects, and thus create new competition at the state and local level. Highway and transit projects already planned would seek guaranteed shares of the reduced pools, and would make new demands on local revenues.

Budget authority for mass transit formula grants for Section 9 (urban grants) and Section 18 (rural grants) in fiscal 1986 would be reduced by sequestration from $2.15 billion to $2.058 billion. Discretionary program budget authority for Section 3 capital grants (funded by the one cent tax) would be reduced by 31 percent in 1986 -- $47.3 million by sequestration and $297.7 million by rescission.

### Federal Aid Highway Trust Funds

The administration proposes budget authority of $12.77 billion in fiscal 1987 for Federal Aid Highway Trust Funds, a 13 percent reduction from the post-sequestration 1986 level. These funds are generated by the eight cent federal

**Selected Federal Aid Highway Programs:**
**Program Obligation Levels**
(in millions of dollars)

| Program | 1986 Authorization | Proposed 1987 Authorization |
|---|---|---|
| Interstate Construction | 4,000 | 0 |
| Interstate-4R | 3,150 | 0 |
| Primary System | 2,450 | 0 |
| Total of programs to be replaced: | 9,600 | |
| **New Interstate/Primary Program** | **0** | **7,843** |
| Secondary System | 650 | 0 |
| Urban System | 800 | 0 |
| Bridge Program | 2,050 | 0 |
| Total of programs to be replaced: | 3,500 | |
| **New Ground Transportation Block Grants** | **0** | **2,200**[1] |
| **New Bridge Program** | **0** | **1,250** |
| Interstate Substitutions | 725 | 0 |
| Interstate Transit Transfer program | 200 | 0 |
| Total of programs to be replaced: | 925 | |
| **New Interstate Substitution program** | **0** | **500** |

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[1] To be combined with $1.1 billion in Transit Trust funds and used for both highway and transit.

gasoline tax. However, the obligation ceiling, which applies to most federal aid highway programs and which allows the states to enter into formal contracts for projects that have been authorized, would be $12.42 billion. For fiscal 1986, the budget authority is $15.344 billion and the obligation ceiling is $13.665 billion. Sequestration would reduce budget authority to $14.68 billion and the obligation ceiling to $12.2 billion.

The administration has proposed in its budget and in legislation to combine three present programs -- interstate construction, repair of the interstate system, and the federal primary road system -- in a new $7.8 billion Interstate/Primary program of resurfacing, restoring, rehabilitating, and reconstructing the interstate and primary highway systems. The new program would be funded at $1.8 billion less than the 1986 levels for the programs it would replace. In the administration's proposed legislation, the authorization for funding the remaining construction of the Interstate system ($1.635 billion) would be distributed among states on the basis of a cost-to-complete estimate. The present one-half percent minimum share guaranteed to all states would be eliminated. States in the region that could receive a smaller share of the reduced funding because of the elimination of the one-half percent guarantee are Delaware, Illinois, Indiana, Iowa, Maine, New Hampshire, Missouri, Rhode Island, Wisconsin, and Vermont.

The remaining funds for the combined highway program would be apportioned 55 percent based on the current Interstate-4R formula and 45 percent based on the current Primary formula. In each case, states would be guaranteed a one-half percent share. In 1986, the Northeast and Midwest received 36 percent of the Interstate construction funds, 32 percent of the Interstate-4R funds, and 40 percent of the Primary system funds.

As mentioned earlier, a ground transportation block grant also is proposed to consolidate present programs for secondary systems, urban systems, and non-primary bridge programs with mass transit capital and operating assistance. Funding for the block grant would be lower by $1.63 billion, or 26.3 percent, than the programs it is intended to replace. In 1986, the Northeast and Midwest received 48 percent of bridge repair and replacement funds, 46 percent of urban system funds, and 32 percent of non-urban program funds. (For state-by-state and regional allocations, see the table at the end of this section.)

The Surface Transportation Reauthorization Act (STRA) proposed by the administration would carry out the modifications of the transit program and create the combined highway program and block grant. The STRA would guarantee that at least 85 percent of federal gasoline tax collections in each state would be returned to it through program spending. However, the combined apportionments making this guarantee possible would be capped at $250 million in fiscal 1987. The U.S. Department of Transportation estimates that the amount necessary to fund such minimum apportionments would total approximately $350 million in 1987. Thus this proposal would result in a $100 million cut for ten states. Of these, four are in the Midwest: Illinois, which received $24.8 million in 1986; Indiana, which received $64.4 million; Ohio, which received $86 million; and Wisconsin, which received $35 million.

## Interstate Substitution Program

The president's budget would eliminate the Interstate Transfer Grants program administered by the Urban Mass Transportation Administration with general revenues. This program was authorized at $200 million in budget authority for 1986 before sequestration. The Interstate Substitution program under the Federal Aid Highway Trust Funds was authorized at $725 million in 1986 before sequestration.

Both highway and transit substitute projects would be financed under a combined Interstate Substitution program from a single $500 million authorization from the Highway Trust Funds. This program allows states to reprogram previously authorized Interstate highway construction funds for other uses. In addition to transit projects, eligibility for use of the funds would be extended to any public road and to highway planning and research activities.

## Amtrak

The National Railroad Passenger Corporation is a private corporation that receives federal subsidies. Its 1986 budget authority is $587 million. Assuming sequestration, Amtrak will lose $25.263 million, leaving a total budget authority for fiscal 1986 of $562.2 million. For 1987 the administration proposes elimination of subsidies to Amtrak.

Amtrak argues that without federal subsidies it will have no alternative but to terminate virtually all services. In addition, it claims $3 billion in locomotives, equipment, and facilities would be lost with little salvage value if it were to shut down.

The Northeast-Midwest region has 65.2 percent of Amtrak passenger traffic. In 1985 the region received 76 percent of Amtrak's $265 million in procurement funds. (See the table at the end of this section.)

If an end to Amtrak subsidies in 1987 resulted in the termination of all operations, 25,000 Amtrak and other railroad jobs would be lost. A $2.1 billion Amtrak liability for labor protection costs would remain.

The Northeast rail corridor runs between Boston and Washington, with additional routes from New Haven to Springfield and Philadelphia to Harrisburg. The Northeast Corridor Improvement Program (NECIP) was created in 1976 to revitalize the track roadbed, operating systems, and stations of the rail corridor. The budget proposes to rescind all NECIP funds in fiscal 1986, and requests no federal funds for NECIP in fiscal 1987.

Amtrak officials estimate that some $300 million is required to complete projects already begun under NECIP. Additional funds would be necessary to complete electrification and other improvements between New York and Boston. Amtrak statistics show the railroad carried 46 percent more passengers between and among cities of the Northeast corridor than did all airlines combined. In 1984, Amtrak carried 17,500 passengers daily on this route, while air passengers numbered 12,000.

## St. Lawrence Seaway

The U.S. St. Lawrence Seaway Development Corporation and the Canadian St. Lawrence Seaway Authority operate the seven locks between Montreal and Lake Ontario, which provide the Great Lakes states with a vital shipping link with the Atlantic seacoast and the rest of the world. The Seaway Corporation also promotes and markets Great Lakes shipping and the seaway system. The corporation is funded by revenues generated by Seaway tolls paid by users. No new federal general revenues would be used to support the corporation's operating expenses, estimated at $10.7 million in fiscal 1987.

Legislation pending in the House (H.R. 6) and Senate (S. 1567), would impose harbor user fees on cargo ships. Both bills contain provisions to mitigate the impact of user fees on Great Lakes shippers because the system already charges tolls. The House bill would not eliminate the tolls, but would provide the Army Corps of Engineers with general authority to offset the operations and maintenance costs of the Seaway, anticipating that this will allow the Seaway Development Corporation to reduce tolls accordingly. The Senate bill would require that ships receive full credit against Great Lakes port user fees for any previously paid Seaway tolls.

## Conrail

The president's budget assumes $1.2 billion in revenue from the sale of the government's 85 percent share in the Consolidated Rail Corporation (Conrail). Conrail is the largest railroad in the Northeast-Midwest region, operating 760 trains daily over 13,000 miles of track.

Conrail moved 190 million tons of freight in 1984 in 12 states. Eleven of them -- Connecticut, Delaware, Illinois, Indiana, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, and Pennsylvania -- are located in the region. Coal, chemicals, trailer and flat car freight, and transportation equipment make up the top volume of freight shipped. Conrail's 1985 revenues totaled $3.21 billion, with a net income of $442 million.

In 1985 the Secretary of Transportation recommended that Conrail be sold to Norfolk Southern Corporation for $1.2 billion. Morgan Stanley and Company has offered $1.4 billion on behalf of over 30 investors, and proposes to undertake a public offering of Conrail stock over five years. The administration asserts that the merger of Conrail with Norfolk Southern will assure its long-term financial success. The Senate bill to approve this sale, S. 638, was passed on February 4, 1986, by a vote of 54 to 39. House action has yet to occur. The merger of Norfolk Southern and Conrail has been criticized for its potential anticompetitive aspects. Shippers in the Northeast and Midwest would see the present three major rail carriers reduced to two. They fear that such a decline in direct competition will leave many more shippers with only one freight rail alternative, resulting in higher costs and reduced services. Northeastern ports have contended that a sale of Conrail to Norfolk Southern would result in the diversion of rail traffic to the South.

## Interstate Commerce Commission (ICC)

The administration proposes to deregulate the motor carrier, freight forwarder, and water carrier industries and thus abolish the ICC by October 1, 1986. Responsibility for remaining regulation of the freight rail industry would be transferred to the Departments of Justice and Transportation. Budget authority for the ICC in fiscal 1986 is $48.18 million. Sequestration would reduce this by $2.072 million. Budget authority for 1987 to phase out the commission is estimated at $12.9 million.

## Federal Water Resources Spending: Fiscal 1985
(in thousands of dollars)

| Region and State | Corps of Engineers and Bureau of Reclamation[1] | Farmers Home Administration Rural Water[2] | Soil Conservation Service Watershed Operations | Total | Per Capita Average (in dollars) |
|---|---|---|---|---|---|
| **New England** | | | | | |
| Connecticut | 5,939 | 3,076 | 1,106 | 10,121 | 3.19 |
| Maine | 2,510 | 10,931 | 438 | 13,879 | 11.92 |
| Massachusetts | 14,285 | 7,217 | 1,126 | 22,628 | 3.89 |
| New Hampshire | 3,719 | 1,891 | 746 | 6,356 | 6.37 |
| Rhode Island | 2,563 | 800 | 15 | 3,378 | 3.49 |
| Vermont | 5,632 | 254 | 1,360 | 7,246 | 13.54 |
| Total | 34,648 | 24,169 | 4,791 | 63,608 | 5.02 |
| **Mid-Atlantic** | | | | | |
| Delaware | 19,704 | 7,713 | 0 | 27,417 | 44.08 |
| Maryland | 34,831 | 12,769 | 1,685 | 49,285 | 11.22 |
| New Jersey | 31,410 | 1,942 | 1,582 | 34,934 | 4.62 |
| New York | 46,418 | 14,416 | 6,646 | 67,480 | 3.79 |
| Pennsylvania | 64,915 | 20,707 | 14,210 | 99,832 | 8.42 |
| Total | 197,278 | 57,547 | 24,123 | 278,948 | 6.61 |
| **Midwest** | | | | | |
| Illinois | 146,241 | 6,221 | 8,948 | 161,410 | 13.99 |
| Indiana | 13,098 | 13,035 | 3,371 | 29,504 | 5.37 |
| Iowa | 43,960 | 7,794 | 5,932 | 57,686 | 20.00 |
| Michigan | 50,488 | 9,465 | 552 | 60,505 | 6.66 |
| Minnesota | 35,868 | 5,265 | 1,904 | 43,037 | 10.26 |
| Ohio | 60,654 | 16,843 | 4,326 | 81,823 | 7.62 |
| Wisconsin | 22,331 | 4,224 | 1,332 | 27,887 | 5.84 |
| Total | 372,640 | 62,847 | 26,365 | 461,852 | 9.48 |
| Missouri | 143,745 | 10,609 | 4,073 | 158,427 | 31.50 |
| Total with Missouri | 516,385 | 73,456 | 30,438 | 620,279 | 11.54 |
| **Northeast** | 231,926 | 81,716 | 28,914 | 342,556 | 6.24 |
| **Midwest*** | 372,640 | 62,847 | 26,365 | 461,852 | 9.48 |
| **Northeast and Midwest*** | 604,566 | 144,563 | 55,279 | 804,408 | 7.77 |
| **South** | 1,400,407 | 242,399 | 102,115 | 1,744,921 | 22.71 |
| **West** | 1,600,718 | 67,227 | 46,874 | 1,714,819 | 29.41 |
| **South and West** | 2,897,125 | 309,626 | 148,989 | 3,355,740 | 25.60 |
| **U.S. Total[3]** | 3,501,691 | 454,189 | 204,268 | 4,160,148 | 17.43 |

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*Regional totals do not include Missouri figures; they are included under West.

[1] This column combines total fiscal 1985 appropriations for the civil works functions of the U.S. Army Corps of Engineers and the Bureau of Reclamation. The state totals for Corps activities include spending under the Mississippi River and Tributaries Project.

[2] This column combines water, sewer, and waste disposal loans and grants awarded by the Farmers Home Administration in fiscal 1985.

[3] U.S. figures do not include funds for Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Department of the Interior "Program for the Bureau of Reclamation: Fiscal Year 1985," unpublished data, December 1985; U.S. Army Corps of Engineers, "Civil Works by State as of September 30, 1985," unpublished data, December 1985; U.S. Department of Agriculture, Farmers Home Administration, "Rural Water and Waste Disposal, Status of Loan and Grant Obligation/Allotments or Distribution, Fiscal Year 1985, as of September 30, 1985," unpublished data, December 1985; U.S. Department of Agriculture, "Fiscal Year 1985 Obligation by State for the Soil Conservation Service Watershed Programs," unpublished data, January 1986.

### EPA Wastewater Treatment Construction Grants Program: Fiscal 1985
(in millions of dollars)

| Region and State | Estimated Fiscal 1985 Allocations | Percent of Total | EPA Needs Survey Amount[1] | Percent of Total |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | 30 | 1.3 | 1,968 | 1.9 |
| Maine | 19 | 0.8 | 971 | 0.9 |
| Massachusetts | 83 | 3.5 | 4,928 | 4.6 |
| New Hampshire | 24 | 1.0 | 1,211 | 1.1 |
| Rhode Island | 16 | 0.7 | 801 | 0.8 |
| Vermont | 12 | 0.5 | 287 | 0.3 |
| Total | 184 | 7.8 | 10,166 | 9.6 |
| **Mid-Atlantic** | | | | |
| Delaware | 12 | 0.5 | 303 | 0.3 |
| Maryland | 59 | 2.5 | 1,538 | 1.4 |
| New Jersey | 100 | 4.2 | 4,934 | 4.6 |
| New York | 271 | 11.3 | 15,489 | 14.6 |
| Pennsylvania | 97 | 4.0 | 4,955 | 4.7 |
| Total | 539 | 22.5 | 27,219 | 25.6 |
| **Midwest** | | | | |
| Illinois | 111 | 4.6 | 4,344 | 4.1 |
| Indiana | 59 | 2.5 | 2,200 | 2.1 |
| Iowa | 33 | 1.4 | 1,161 | 1.1 |
| Michigan | 105 | 4.4 | 3,729 | 3.5 |
| Minnesota | 45 | 1.9 | 1,622 | 1.5 |
| Ohio | 138 | 5.8 | 5,075 | 4.8 |
| Wisconsin | 66 | 2.8 | 1,876 | 1.8 |
| Total | 557 | 23.4 | 20,007 | 18.8 |
| Missouri | 68 | 2.8 | 3,398 | 3.2 |
| Total with Missouri | 625 | 26.2 | 23,405 | 22.0 |
| **Northeast** | 723 | 30.3 | 37,385 | 35.2 |
| **Midwest*** | 557 | 23.3 | 20,007 | 18.8 |
| **Northeast and Midwest*** | 1,280 | 53.6 | 57,392 | 54.0 |
| **South** | 565 | 23.6 | 28,295 | 26.6 |
| **West** | 514 | 21.5 | 20,621 | 19.4 |
| **South and West** | 1,079 | 45.1 | 48,916 | 46.0 |
| **U.S. Total[2]** | 2,359 | 100.0 | 106,308 | 100.0 |

*Regional totals do not include Missouri figures; they are included under West.

[1] This column contains EPA's assessments of funds needed, in 1984 dollars, for construction of publicly owned treatment facilities by the year 2000. (The study did not include Puerto Rico or the Territories.)

[2] U.S. figures do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Environmental Protection Agency, Office of Municipal Pollution Control, and Roy F. Weston, Inc., _1984 Needs Survey Report to Congress_: _Assessment of Needed Publicly Owned Wastewater Treatment Facilities in the United States_ (Washington, D.C.: Environmental Protection Agency, February 1985).

## Selected Information on Clean Coal Programs

| Region and State | 1980 Annual Emissions of Sulfur Dioxides (in thousands of tons) | 1983 Percent of Electricity Generated by Coal | 1984 Coal Mining Employment | 1985 Statements of Interest to Clean Coal Reserve |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | 72 | 0.00 | 0 | 5 |
| Maine | 95 | 0.00 | 0 | 0 |
| Massachusetts | 344 | 25.33 | 0 | 8 |
| New Hampshire | 93 | 48.42 | 0 | 0 |
| Rhode Island | 15 | 0.00 | 0 | 0 |
| Vermont | 7 | 1.55 | 0 | 1 |
| Total | 626 | 13.48 | 0 | 14 |
| **Mid-Atlantic** | | | | |
| Delaware | 109 | 69.66 | 0 | 0 |
| Maryland | 338 | 45.35 | 844 | 2 |
| New Jersey | 279 | 27.25 | 0 | 7 |
| New York | 944 | 12.53 | 0 | 17 |
| Pennsylvania | 2,022 | 76.30 | 24,797 | 21 |
| Total | 3,692 | 43.13 | 25,641 | 47 |
| **Midwest** | | | | |
| Illinois | 1,471 | 66.23 | 13,339 | 8 |
| Indiana | 2,008 | 98.74 | 5,477 | 4 |
| Iowa | 329 | 84.53 | 127 | 2 |
| Michigan | 907 | 70.10 | 0 | 1 |
| Minnesota | 260 | 56.18 | 0 | 3 |
| Ohio | 2,647 | 94.49 | 9,803 | 14 |
| Wisconsin | 637 | 69.35 | 0 | 5 |
| Total | 8,259 | 79.15 | 28,746 | 37 |
| Missouri | 1,301 | 95.73 | 1,272 | 0 |
| Total with Missouri | 9,560 | 80.89 | 30,018 | 37 |
| **Northeast** | 4,318 | 36.96 | 25,641 | 61 |
| **Midwest*** | 8,259 | 79.15 | 28,746 | 37 |
| **Northeast and Midwest*** | 12,577 | 59.14 | 54,387 | 98 |
| **South** | 9,373 | 55.54 | 106,401 | 43 |
| **West** | 4,611 | 39.75 | 17,060 | 34 |
| **South and West** | 13,984 | 49.32 | 123,461 | 77 |
| **U.S. Total** | 26,561 | 52.85 | 177,848 | 175 |

*Regional totals do not include Missouri figures; they are included under West.

SOURCES: Staff calculations from U.S. Department of Energy, Energy Information Administration, State Energy Data Report (Washington, D.C., June 1983), p. 9; Estimates of U.S. Wood Energy Consumption from 1949-1981 (Washington, D.C., August 1982), p. 121; Coal Production 1984, DOE/EIA-0118 (Washington, D.C., November 1985), p. 48; Office of the Secretary, Report to Congress on Emergency Clean Coal Technologies, DOE/S-0034 (Washington, D.C., May 1985), p. 3-3; U.S. Congress, Office of Technology, Acid Rain and Transported Air Pollutants (Washington, D.C., June 1984), p. 150.

## Food Stamp Program: September 1985

| Region and State | Monthly Participation (thousands) | Participation as a Percent of Population | Participation Change from 1984 (percent) | Monthly Value of Coupons (in millions of dollars) |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | 140 | 4.5 | -4.8 | 4.8 |
| Maine | 109 | 9.4 | -2.7 | 4.8 |
| Massachusetts | 328 | 5.6 | -4.4 | 13.1 |
| New Hampshire | 26 | 2.6 | -10.3 | 1.1 |
| Rhode Island | 68 | 7.0 | -4.2 | 2.7 |
| Vermont | 41 | 7.7 | -6.8 | 1.5 |
| Total | 712 | 5.6 | -4.6 | 28.0 |
| **Mid-Atlantic** | | | | |
| Delaware | 34 | 5.5 | -12.8 | 1.5 |
| Maryland | 268 | 6.1 | -10.1 | 14.0 |
| New Jersey | 436 | 5.8 | -8.8 | 20.0 |
| New York | 1,869 | 10.5 | 1.8 | 77.4 |
| Pennsylvania | 1,009 | 8.5 | -5.7 | 43.8 |
| Total | 3,616 | 8.6 | -2.8 | 156.7 |
| **Midwest** | | | | |
| Illinois | 1,096 | 9.5 | -0.7 | 55.9 |
| Indiana | 384 | 7.0 | -4.2 | 18.9 |
| Iowa | 203 | 7.0 | 8.0 | 8.9 |
| Michigan | 949 | 10.3 | -6.8 | 42.5 |
| Minnesota | 221 | 5.3 | -2.2 | 8.6 |
| Ohio | 1,114 | 10.4 | -0.9 | 57.2 |
| Wisconsin | 364 | 7.6 | 3.1 | 11.9 |
| Total | 4,331 | 8.9 | -1.9 | 203.9 |
| Missouri | 337 | 6.7 | -9.2 | 16.5 |
| Total with Missouri | 4,668 | 8.7 | -2.4 | 220.4 |
| **Northeast** | 4,328 | 7.9 | -3.1 | 184.7 |
| **Midwest*** | 4,331 | 8.9 | -1.9 | 203.9 |
| **Northeast and Midwest*** | 8,659 | 8.4 | -2.5 | 388.6 |
| **South** | 7,056 | 9.2 | -2.4 | 320.5 |
| **West** | 3,558 | 6.2 | -0.2 | 144.1 |
| **South and West** | 10,644 | 7.8 | -1.7 | 464.6 |
| **U.S. Total**[1] | 19,303 | 8.1 | -2.0 | 853.2 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. totals do not include funds for Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Agriculture, Food and Nutrition Service, "Food Program Update for September 1985," December 1985.

## Farm Program Expenditures
(in thousands of dollars)

| Region and State | 1984 USDA Direct Payments to Farmers | Fiscal 1985 Commodity Credit Corporation (net outlays) | Cooperative State Research Service | Agricultural Extension Service | FmHA Farmer Loan Program (obligations) |
|---|---|---|---|---|---|
| **New England** | | | | | |
| Connecticut | 2,814 | 2,721 | 2,576 | 2,343 | 8,479 |
| Maine | 4,339 | 2,511 | 2,589 | 2,398 | 24,972 |
| Massachusetts | 3,106 | 2,828 | 4,448 | 3,484 | 7,949 |
| New Hampshire | 1,690 | 1,311 | 1,641 | 1,662 | 2,898 |
| Rhode Island | 205 | 93 | 1,443 | 1,209 | 737 |
| Vermont | 8,450 | 13,400 | 1,730 | 1,761 | 12,087 |
| Total | 20,604 | 22,864 | 14,427 | 12,857 | 57,142 |
| **Mid-Atlantic** | | | | | |
| Delaware | 5,201 | 5,832 | 2,208 | 1,618 | 5,495 |
| Maryland | 23,773 | 23,501 | 4,822 | 4,666 | 10,522 |
| New Jersey | 7,303 | 6,616 | 3,512 | 3,756 | 10,340 |
| New York | 63,690 | 90,688 | 10,509 | 11,155 | 74,039 |
| Pennsylvania | 80,658 | 46,760 | 8,304 | 11,445 | 41,770 |
| Total | 180,625 | 173,397 | 29,355 | 32,640 | 142,166 |
| **Midwest** | | | | | |
| Illinois | 543,241 | 1,049,307 | 7,867 | 10,994 | 253,909 |
| Indiana | 308,846 | 483,675 | 7,449 | 8,839 | 106,258 |
| Iowa | 742,763 | 1,858,247 | 7,476 | 8,916 | 710,756 |
| Michigan | 167,669 | 278,049 | 8,097 | 9,605 | 193,723 |
| Minnesota | 529,908 | 1,614,978 | 7,451 | 8,609 | 437,657 |
| Ohio | 232,204 | 333,017 | 7,390 | 11,223 | 145,520 |
| Wisconsin | 237,814 | 401,886 | 8,836 | 8,668 | 327,480 |
| Total | 2,762,445 | 6,019,159 | 54,566 | 66,854 | 2,175,303 |
| Missouri | 224,626 | 1,306,973 | 9,023 | 10,533 | 233,797 |
| Total with Missouri | 2,987,071 | 7,326,132 | 63,589 | 77,387 | 2,409,100 |
| **Northeast** | 201,229 | 196,261 | 43,782 | 45,497 | 199,308 |
| **Midwest*** | 2,762,445 | 6,019,159 | 54,566 | 66,854 | 2,175,303 |
| **Northeast and Midwest*** | 2,963,674 | 6,215,420 | 98,348 | 112,351 | 2,374,611 |
| **South** | 2,106,470 | 5,407,525 | 109,537 | 138,299 | 1,904,381 |
| **West** | 3,360,226 | 7,856,551 | 74,134 | 67,819 | 1,633,352 |
| **South and West** | 5,466,696 | 13,264,076 | 183,671 | 206,118 | 3,537,733 |
| U.S. **Total**[1] | 8,430,370 | 19,479,496 | 282,019 | 318,469 | 5,912,344 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. figures do not include Puerto Rico, the Territories, set-asides for small business, or unobligated balances.

SOURCES: Staff calculations from U.S. Department of Agriculture, Office of Budget and Program Analysis, USDA Federal Assistance Award Data System, unpublished data, January 22, 1986; Economic Research Service, unpublished data, 1985; Cooperative State Research Service, unpublished data, 1986; Agriculture Extension Service, 1986 Budget Explanatory Notes for Committee on Appropriations, 1985.

## Selected Federal Highway Program Apportionments: Fiscal 1986[1]

(in thousands of dollars)

| Region and State | Interstate Construction | | Interstate 4R | | Consolidated Primary | | Bridges: Replacement and Rehabilitation | | Urban System | | Rural Secondary | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Percent of U.S. Total | Amount | Percent of U.S. Total | Amount | Percent of U.S. Total | Amount | Percent of U.S. Total | Amount | Percent of U.S. Total | Amount | Percent of U.S. Total |
| **New England** | | | | | | | | | | | | |
| Connecticut | 79,574 | 2.2 | 39,314 | 1.3 | 26,885 | 1.1 | 42,049 | 2.3 | 11,308 | 1.5 | 4,011 | 0.6 |
| Maine | 18,201 | 0.5 | 15,515 | 0.5 | 15,391 | 0.6 | 6,651 | 0.4 | 3,940 | 0.5 | 5,598 | 0.9 |
| Massachusetts | 145,237 | 4.0 | 38,138 | 1.2 | 47,484 | 2.0 | 51,709 | 2.8 | 21,972 | 2.8 | 6,390 | 1.0 |
| New Hampshire | 18,201 | 0.5 | 15,515 | 0.5 | 12,067 | 0.5 | 12,164 | 0.7 | 3,940 | 0.5 | 3,201 | 0.5 |
| Rhode Island | 18,201 | 0.5 | 15,515 | 0.5 | 12,067 | 0.5 | 6,658 | 0.4 | 3,940 | 0.5 | 3,201 | 0.5 |
| Vermont | 18,201 | 0.5 | 15,839 | 0.5 | 12,067 | 0.5 | 9,121 | 0.5 | 3,940 | 0.5 | 3,201 | 0.5 |
| Total | 297,615 | 8.2 | 139,836 | 4.5 | 125,961 | 5.2 | 128,352 | 7.0 | 49,040 | 6.3 | 25,602 | 4.0 |
| **Mid-Atlantic** | | | | | | | | | | | | |
| Delaware | 18,201 | 0.5 | 15,515 | 0.5 | 12,067 | 0.5 | 4,574 | 0.3 | 3,940 | 0.5 | 3,201 | 0.5 |
| Maryland | 90,923 | 2.5 | 46,831 | 1.5 | 36,172 | 1.5 | 33,194 | 1.8 | 15,503 | 2.0 | 6,001 | 0.9 |
| New Jersey | 131,026 | 3.6 | 36,383 | 1.2 | 56,920 | 2.3 | 98,505 | 5.4 | 30,267 | 3.9 | 5,606 | 0.9 |
| New York | 323,123 | 8.9 | 107,515 | 3.5 | 143,466 | 5.9 | 182,950 | 10.0 | 68,194 | 8.8 | 19,400 | 3.1 |
| Pennsylvania | 174,391 | 4.8 | 83,687 | 2.7 | 114,770 | 4.7 | 123,623 | 6.8 | 36,980 | 4.7 | 24,893 | 3.9 |
| Total | 737,664 | 20.3 | 289,931 | 9.4 | 363,395 | 15.0 | 442,846 | 24.3 | 154,884 | 19.9 | 59,101 | 9.3 |
| **Midwest** | | | | | | | | | | | | |
| Illinois | 18,201 | 0.5 | 111,265 | 3.6 | 95,594 | 3.9 | 61,346 | 3.4 | 43,243 | 5.6 | 18,442 | 2.9 |
| Indiana | 18,201 | 0.5 | 70,382 | 2.3 | 55,957 | 2.3 | 35,167 | 1.9 | 15,661 | 2.0 | 14,945 | 2.3 |
| Iowa | 18,201 | 0.5 | 42,687 | 1.4 | 38,279 | 1.6 | 45,227 | 2.5 | 7,168 | 0.9 | 14,230 | 2.2 |
| Michigan | 75,680 | 2.6 | 98,383 | 3.2 | 87,948 | 3.6 | 30,524 | 1.7 | 29,713 | 3.8 | 19,416 | 3.1 |
| Minnesota | 94,917 | 2.6 | 57,724 | 1.9 | 47,088 | 1.9 | 29,459 | 1.6 | 11,915 | 1.5 | 16,217 | 2.5 |
| Ohio | 30,552 | 0.8 | 134,611 | 4.4 | 99,885 | 4.1 | 62,352 | 3.4 | 35,988 | 4.6 | 19,632 | 3.1 |
| Wisconsin | 18,201 | 0.5 | 41,240 | 1.3 | 51,606 | 2.1 | 42,587 | 2.3 | 13,269 | 1.7 | 15,003 | 2.4 |
| Total | 273,953 | 7.5 | 556,292 | 18.0 | 476,357 | 19.7 | 306,662 | 16.8 | 156,957 | 20.2 | 117,885 | 18.5 |
| Missouri | 18,201 | 0.5 | 86,522 | 2.8 | 55,057 | 2.3 | 83,698 | 4.6 | 14,749 | 1.9 | 17,124 | 2.7 |
| Total with Missouri | 292,154 | 8.0 | 642,814 | 20.8 | 531,414 | 21.9 | 390,360 | 21.4 | 171,706 | 22.1 | 135,009 | 21.2 |
| **Northeast** | 1,035,279 | 28.4 | 429,767 | 13.9 | 489,356 | 20.2 | 571,199 | 31.3 | 203,924 | 26.2 | 84,703 | 13.3 |
| **Midwest*** | 273,953 | 7.5 | 556,292 | 18.0 | 476,357 | 19.7 | 306,662 | 16.8 | 156,957 | 20.2 | 117,885 | 18.5 |
| **Northeast and Midwest*** | 1,309,232 | 36.0 | 986,059 | 31.9 | 965,713 | 39.8 | 877,861 | 48.1 | 360,881 | 46.4 | 202,588 | 31.9 |
| **South** | 1,011,866 | 27.8 | 1,053,583 | 34.1 | 754,367 | 31.1 | 578,249 | 31.7 | 208,692 | 26.8 | 214,794 | 33.8 |
| **West** | 1,319,101 | 36.2 | 1,047,752 | 33.9 | 703,395 | 29.0 | 368,817 | 20.2 | 209,003 | 26.8 | 218,591 | 34.4 |
| **South and West** | 2,330,967 | 64.0 | 2,101,335 | 68.1 | 1,457,762 | 60.2 | 947,066 | 51.9 | 417,695 | 53.6 | 433,385 | 68.1 |
| **U.S. Total[2]** | 3,640,200 | 100.0 | 3,087,393 | 100.0 | 2,423,471 | 100.0 | 1,824,926 | 100.0 | 778,578 | 100.0 | 635,978 | 100.0 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Figures may not add due to rounding.

[2] U.S. figures do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Transportation, Federal Highway Administration, "Summary of FY 1987/1986 Apportionments," HFS-31, October 1, 1985.

## Public Transportation Assistance[1]: Fiscal 1986

| | Section 9:[2] Urban Assistance | | Section 18 Non-Urban Assistance | |
|---|---|---|---|---|
| Region and State | Amount (in thousands of dollars) | Percent of U.S. Total | Amount (in thousands of dollars) | Percent of U.S. Total |
| **New England** | | | | |
| Connecticut | 29,336 | 1.1 | 558 | 0.9 |
| Maine | 1,523 | 0.1 | 616 | 1.0 |
| Massachusetts | 80,100 | 3.9 | 909 | 1.5 |
| New Hampshire | 1,928 | 0.1 | 441 | 0.7 |
| Rhode Island | 12,345 | 0.6 | 110 | 0.2 |
| Vermont | 516 | ** | 306 | 0.5 |
| Total | 125,748 | 6.1 | 2,940 | 4.8 |
| **Mid-Atlantic** | | | | |
| Delaware | 3,035 | 0.1 | 160 | 0.3 |
| Maryland | 43,653 | 2.1 | 757 | 1.2 |
| New Jersey | 1,597 | p.1 | 755 | 1.2 |
| New York | 563,715 | 27.2 | 2,649 | 4.3 |
| Pennsylvania | 138,929 | 6.7 | 3,303 | 5.4 |
| Total | 750,929 | 36.2 | 7,624 | 12.4 |
| **Midwest** | | | | |
| Illinois | 184,189 | 8.9 | 2,204 | 3.6 |
| Indiana | 16,815 | 0.8 | 2,032 | 3.3 |
| Iowa | 8,225 | 0.4 | 1,394 | 2.3 |
| Michigan | 55,568 | 2.7 | 2,448 | 4.0 |
| Minnesota | 20,514 | 1.0 | 1,422 | 2.3 |
| Ohio | 72,642 | 3.5 | 2,996 | 4.9 |
| Wisconsin | 27,105 | 1.3 | 1,667 | 2.7 |
| Total | 385,058 | 18.6 | 14,163 | 23.0 |
| Missouri | 27,084 | 1.3 | 1,616 | 2.6 |
| Total with Missouri | 412,142 | 19.9 | 15,779 | 25.7 |
| **Northeast** | 876,677 | 42.3 | 10,564 | 17.2 |
| **Midwest*** | 385,058 | 18.6 | 14,163 | 23.0 |
| **Northeast and Midwest*** | 1,261,735 | 60.8 | 24,727 | 40.2 |
| **South** | 332,172 | 16.0 | 24,211 | 39.4 |
| **West** | 479,763 | 23.1 | 12,528 | 20.4 |
| **South and West** | 811,935 | 39.2 | 36,739 | 59.8 |
| **U.S. Total[3]** | 2,073,675 | 100.0 | 61,464 | 100.0 |

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*Regional totals do not include Missouri figures; they are included under West.

**Less than 0.1 percent of the U.S. total.

[1] Figures may not add due to rounding.

[2] Grants to multistate transportion authority have been allocated to the states where the majority of the funds would be spent.

[3] U.S. totals do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Transportation, Urban Mass Transportation Administration, Fiscal 1986 UMTA Formula Grant Apportionments, Federal Register, Vol. 51, No. 16, January 24, 1986.

## Amtrak Statistics: 1985[1]

| Region and State | Passenger Traffic[2]<br>Amount (in thousands) | Passenger Traffic[2]<br>Percent of U.S. Total | Procurement<br>Dollars (in thousands) | Procurement<br>Percent of U.S. Total |
|---|---|---|---|---|
| **New England** | | | | |
| Connecticut | 1,220 | 3.4 | 9,432 | 3.6 |
| Maine[4] | - | - | - | - |
| Massachusetts | 1,113 | 3.1 | 9,073 | 3.4 |
| New Hampshire[4] | - | - | - | - |
| Rhode Island | 446 | 1.3 | 2,179 | 0.8 |
| Vermont | 40 | 0.1 | 415 | 0.2 |
| Total | 2,819 | 7.9 | 21,099 | 8.0 |
| **Mid-Atlantic** | | | | |
| Delaware | 598 | 1.7 | 1,632 | 0.6 |
| Maryland | 1,298 | 3.6 | 9,297 | 3.5 |
| New Jersey | 1,788 | 5.0 | 27,480 | 10.4 |
| New York | 7,809 | 21.8 | 16,238 | 6.1 |
| Pennsylvania | 4,751 | 13.3 | 71,667 | 27.1 |
| Total | 16,244 | 45.4 | 126,314 | 47.7 |
| **Midwest** | | | | |
| Illinois | 2,694 | 7.5 | 34,987 | 13.2 |
| Indiana | 209 | 0.6 | 5,875 | 2.2 |
| Iowa | 60 | 0.2 | 55 | --[3] |
| Michigan | 708 | 2.0 | 2,576 | 1.0 |
| Minnesota | 159 | 0.4 | 1,764 | 0.7 |
| Ohio | 146 | 0.4 | 5,528 | 2.1 |
| Wisconsin | 303 | 0.9 | 2,846 | 1.1 |
| Total | 4,279 | 12.0 | 53,631 | 20.3 |
| Missouri | 387 | 1.0 | 2,289 | 0.9 |
| Total with Missouri | 4,666 | 13.0 | 55,920 | 21.1 |
| **Northeast** | 19,063 | 53.3 | 147,413 | 55.7 |
| **Midwest*** | 4,279 | 12.0 | 53,631 | 20.3 |
| **Northeast and Midwest*** | 23,342 | 65.2 | 201,044 | 76.0 |
| **South** | 5,391 | 15.1 | 38,453 | 14.5 |
| **West** | 7,055 | 19.7 | 25,051 | 9.5 |
| **South and West** | 12,446 | 34.8 | 63,504 | 24.0 |
| **U.S. Total** | 35,788 | 100.0 | 264,548 | 100.0 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Figures may not add due to rounding.
[2] Total number of passengers getting on and off Amtrak trains at stations.
[3] Less than 0.1 percent of U.S. total.
[4] Amtrak does not operate in the state.

SOURCES: Staff calculations from National Railroad Passenger Corporation (Amtrak), "Amtrak Procurement by State/City During 1985," unpublished computer printout, Washington, D.C., January 1986.

## SECTION FOUR: ENERGY

The administration's budget proposal again, as in previous years, calls for steep reductions in or elimination of many programs regarded as essential in developing local energy resources and curbing energy consumption. The Northeast-Midwest region has the highest energy prices in the nation and produces less than one-third of the energy it consumes. Federal energy programs that would be reduced or eliminated under the budget request have promoted efficient energy use and helped stem the outflow of capital spent on energy purchases.

The request would cut the post-sequestration budget for energy conservation by 90.8 percent, for fossil energy by 73.5 percent, for solar and renewables by 60.3 percent, and for non-defense nuclear energy by 7.7 percent. Low-income energy assistance would be funded at last year's level. The request provides no funding for filling the Strategic Petroleum Reserve; it proposes selling the five federal power marketing administrations by fiscal 1991; and it assumes the passage of legislation diverting $1 billion in oil overcharge funds from consumer restitution into the Treasury.

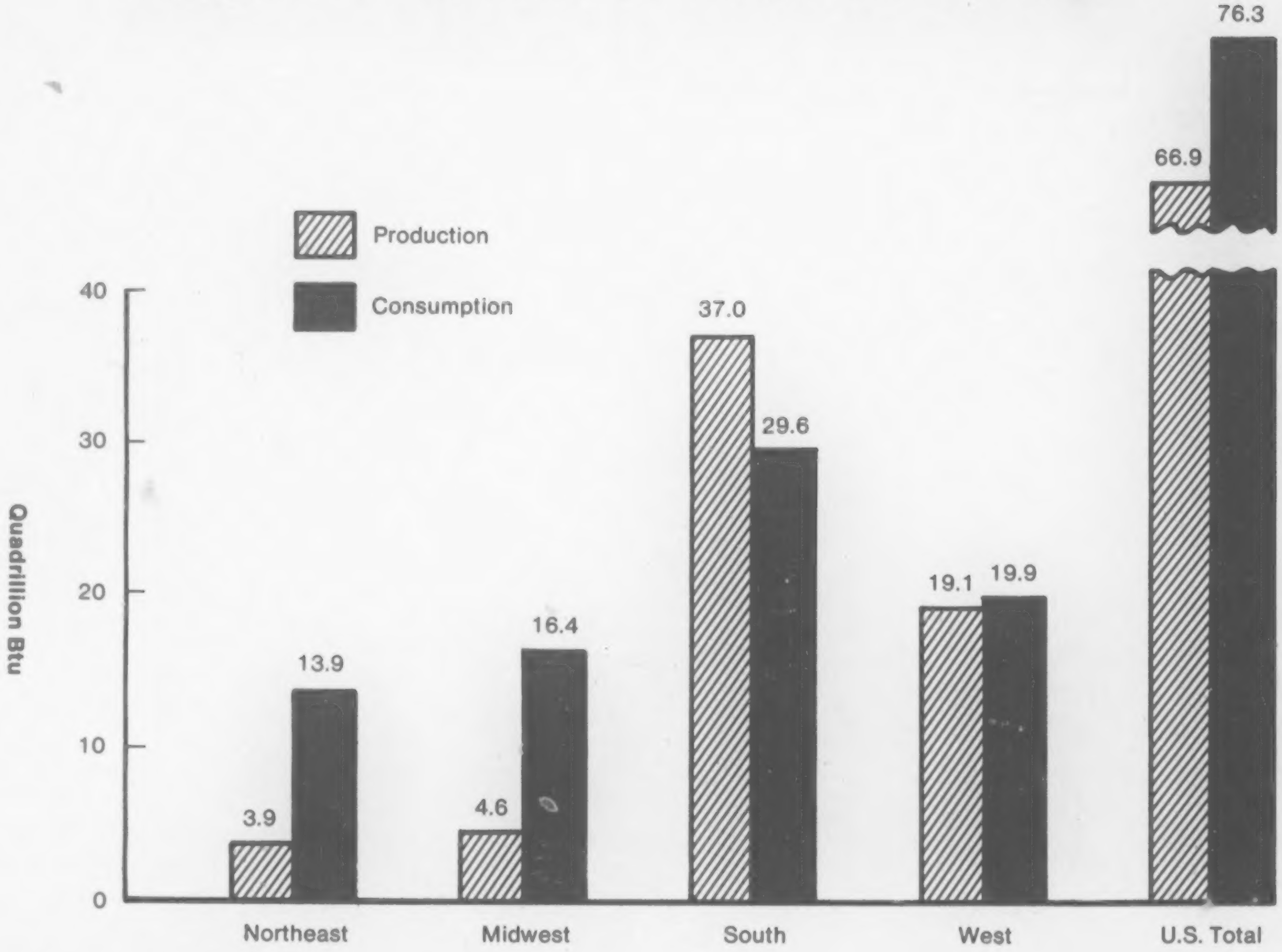
Total outlays for civilian energy programs would be approximately $3.75 billion in fiscal 1987, a 20 percent decrease from the fiscal 1986 level (assuming sequestration). In contrast, the total budget for military programs in the Energy Department would be funded at $8.3 billion, an increase of 15 percent for weapons R & D and production and defense waste management.

The request also assumes the continuation of some energy tax expenditures. These incentives would total $2.735 billion in fiscal 1987, virtually the same as in 1986. Approximately 6 percent of these projected expenditures would result from investments in alternative energy sources, compared to 72 percent from oil and gas development. No renewal is sought for the energy conservation tax credit, which expired on December 31, 1985.

The states in the Northeast-Midwest region remain more vulnerable than other parts of the country to supply disruptions and related price increases. All of them are net energy importers, producing on average 28 percent of the energy they consume, versus the national average of 88 percent (see accompanying illustration). Although the current decline in world oil prices should provide relief, the burden of high energy costs has not been lifted for residents of the Northeast and Midwest. Retail natural gas and electricity prices have increased more in recent years than oil prices have fallen. The retail price of petroleum products does not tend to fall as quickly or as far as crude oil prices. Since crude oil prices peaked in 1981, they have fallen by 24.4 percent through October 1985; the price to the consumer of fuel oil fell by only 13.5 percent. Finally, any increase in energy taxes this year would reduce or eliminate such consumer energy cost savings.

In stark contrast to the Northeast-Midwest region, several states in the South and West that possess oil, gas, and coal resources produce far more energy than they consume. Current federal policy -- both spending programs and tax incentives -- favors investment in capital-intensive energy sources such as oil, gas, and large-scale electricity generation. This emphasis continues

# Energy Consumption vs. Energy Production, 1981



despite the potential of existing alternative energy technologies and large energy efficiency gains in both existing building stock and new plant and equipment.

Certain federal energy programs have proved helpful to the region in weatherizing its older housing, developing new energy-efficient technologies, and utilizing its extensive coal resources cleanly. These initiatives have lessened the region's dependence on outside energy sources and held down total energy expenditures. Efficient energy use also serves to maintain the competitiveness of the region's industries. The cutback or elimination of federal energy efforts could undercut the progress made since the energy price shocks of the 1970s.

## A. Energy Conservation

The Department of Energy's conservation budget is divided into two major categories: grants to state and local governments for energy assistance and energy conservation research and development (R & D). The president's request would cut budget authority for these programs by 91 percent, from $428 million in fiscal 1986 (assuming sequestration) to $40 million in 1987. The state and local assistance programs would be eliminated; conservation R & D would be cut by 80 percent. Furthermore, no funding is requested for the Solar Energy and Energy Conservation Bank in the Department of Housing and Urban Development. (See the table on State Energy Expenditures and Potential Energy Conservation Savings at the end of this section.)

Energy conservation grants provide funds to state and local governments to promote conservation activities under four separate grant programs: low-income weatherization assistance, institutional conservation (also known as the schools and hospitals program), state energy conservation planning, and the energy extension service. Budget authority in fiscal 1986 totaled $256.6 million (assuming sequestration) for the grant programs and for program management; the request for fiscal 1987 would provide no money for grants and $5 million for program management needed to close out federal responsibilities. The funding history of these programs may be found in the accompanying table.

In fiscal 1986, 63 percent of the weatherization assistance grants will go to states in the Northeast and Midwest, weatherizing over 110,000 low-income homes. (See the table at the end of this section.) A 1985 report by the General Accounting Office (GAO) estimated that between 13 million and 20 million low-income households still could be weatherized under the program. Even if funding were maintained at the fiscal 1986 level and they relied on all other available sources of weatherization funding (such as the LIHEAP weatherization set-aside), most states, GAO noted, "would not complete the process until well into the 21st century." If weatherization continued at current levels, low-income homes in New York would not be completely weatherized for 74 years; in Massachusetts it would take 100 years.

Administration budget documents justify the elimination of these programs by indicating that funds will be made available to the states through settlements arising from oil overcharge violations. These funds result from settlements in cases where federal petroleum price controls were violated and consumers were overcharged illegally. In the settlements approved to date, courts have been guided by the principle of providing restitution to aggrieved consumers. Restitution has taken the form of state-administered energy assistance

## BUDGET SUMMARY

(in millions of dollars)

| | | | | | Percent Change 1986-1987 | |
|---|---|---|---|---|---|---|
| | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
| **Energy Conservation** | | | | | | |
| **Energy Conservation** | | | | | | |
| Budget Authority | 709 | 457 | 428 | 39 | -90.89 | -91.25 |
| Outlays | 743 | 464 | 434 | 256 | -41.01 | -43.34 |
| **Solar Bank** | | | | | | |
| Budget Authority | --[1] | 15 | 0 | 0 | 0.00 | 0.00 |
| Outlays | --[1] | 27 | 36 | 9 | -75.00 | -75.98 |
| **Low-Income Home Energy Assistance Program (LIHEAP)** | | | | | | |
| Budget Authority | 1,850 | 2,100 | 2,100 | 2,100 | 0.00 | -3.94 |
| Outlays | 1,730 | 2,141 | 2,019 | 2,091 | 3.57 | -0.51 |
| **Energy Supply Research and Development** | | | | | | |
| **Nuclear**[2] | | | | | | |
| Budget Authority | 1,445 | 1,029 | 969[3] | 895 | -7.66 | -11.30 |
| Outlays | NA | NA | NA | NA | NA | NA |
| **Fossil** | | | | | | |
| Budget Authority | 672 | 289 | 312 | 83 | -73.46 | -74.51 |
| Outlays | NA | 337 | 303 | 169 | -44.17 | -46.37 |
| **Solar and Other Renewables** | | | | | | |
| Budget Authority | 657 | 219 | 173 | 69 | -60.31 | -61.88 |
| Outlays | NA | NA | NA | NA | NA | NA |
| **Clean Coal Technology Program**[4] | | | | | | |
| Budget Authority | -- | -- | 0 | 0 | 0.00 | 0.00 |
| Outlays | -- | -- | 4 | 94 | 2,202.44 | 2,111.76 |

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[1] Approximately $250,000 in new budget authority and outlays in fiscal 1981.

[2] Includes magnetic fusion, nuclear energy (minus space and defense power systems), civilian radioactive waste research and development, and remedial action and waste technology.

[3] Excludes a reduction of $19.3 million in prior year balances and adjustments.

[4] The Clean Coal Technology program was funded from a transfer of fiscal 1980 budget authority from the Synthetic Fuels Corporation and will be obligated in the following way: fiscal 1986, $99 million; fiscal 1987, $149 million; and fiscal 1988, $149 million.

## BUDGET SUMMARY
(in millions of dollars)
(continued)

| | | | | | Percent Change 1986-1987 | |
|---|---|---|---|---|---|---|
| | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
| **Energy Information Administation** | | | | | | |
| Budget Authority | 90 | 61 | 58 | 60 | 3.47 | -0.61 |
| Outlays | 84 | 54 | 61 | 58 | -3.95 | -7.73 |
| **Power Marketing Administrations** | | | | | | |
| **Alaska Power Administration** | | | | | | |
| Budget Authority | 3.1 | 3.2 | 3.2 | 2.9 | -9.38 | -12.94 |
| Outlays | 3.2 | 3.1 | 3.4 | 3.3 | -8.33 | -11.94 |
| **Bonneville Power Administration** | | | | | | |
| Budget Authority | NA | 285 | 330 | 276 | -16.00 | -19.63 |
| Outlays | -5 | -261 | -34 | -177 | 425.00 | 404.18 |
| **Southeastern Power Administration** | | | | | | |
| Budget Authority | 2 | 36 | 0 | 20 | 100.00 | 100.00 |
| Outlays | 2 | 8 | 15 | 21 | 45.21 | 39.49 |
| **Southwestern Power Administration** | | | | | | |
| Budget Authority | 28 | 31 | 29 | 25 | -13.36 | -16.77 |
| Outlays | 33 | 30 | 38 | 39 | 0.52 | -3.44 |
| **Western Area Power Administration** | | | | | | |
| Budget Authority | 142 | 218 | 196 | 240 | 22.66 | 17.83 |
| Outlays | 132 | 190 | 269 | 282 | 4.76 | 0.63 |
| **Total, Power Administrations** | | | | | | |
| Budget Authority | 175 | 573 | 558 | 564 | 1.07 | -2.91 |
| Outlays | 164 | -100 | 236 | 122 | -48.05 | -50.09 |

programs. Using the funds in lieu of federal appropriations for these programs would have the same impact as diverting the oil overcharge settlements into the federal Treasury and away from overcharged consumers. Such a move would violate the intent of court-ordered restitution. Furthermore, the budget assumes passage of legislation to capture $1.0 billion in oil overcharge funds for the federal Treasury in fiscal 1987. Congress has rejected similar proposals in the past.

States in the Northeast-Midwest region receive a large share of the weatherization and low-income energy assistance grants under distribution formulas that take into consideration factors such as energy prices and weather. The replacement of federal appropriations for these programs with oil overcharge monies, which are allocated without regard to these factors, would result in the loss to the region of millions of dollars in energy assistance. For example, if the $178 million distributed in fiscal 1986 for the weatherization assistance program were allocated according to the oil overcharge formula rather than the weatherization formula, states in the region would lose a total of $34 million.

**Energy Conservation Budget Authority**
(in millions of dollars)

| | 1985 Actual | 1986 Actual | 1987 Request |
|---|---|---|---|
| State and Local Assistance | | | |
| Weatherization | 191.1 | 177.9 | 0.0 |
| Schools and Hospitals | 47.0 | 43.9 | 0.0 |
| State Conservation Planning | 23.5 | 17.5 | 0.0 |
| Energy Extension Service | 9.8 | 7.3 | 0.0 |
| Other* | 11.9 | 10.0 | 5.0 |
| **Total** | 283.4 | 256.6 | 5.0 |
| Research and Development | | | |
| Industrial | 31.7 | 40.1 | 15.6 |
| Transportation | 61.3 | 56.6 | 19.8 |
| Buildings and Community Systems | 41.0 | 37.3 | 14.2 |
| Multi-Sector | 23.8 | 25.6 | 19.9 |
| Other** | 17.7 | 11.3 | 1.8 |
| Sub-Total | 175.5 | 170.9 | 71.2 |
| Use of Prior Year Funds and Other Adjustments | -1.5 | 0.0 | -36.8 |
| **Total** | 174.0 | 170.9 | 34.4 |
| **Total Energy Conservation**[1] | **457.4** | **427.5** | **39.4** |

*Includes Territories Assistance, Program Direction, and Program Evaluation.
**Includes Facilities, Program and Management, and Policy Analysis.

[1] Totals may not add due to rounding.

The president's budget requests a cut of 80 percent in energy conservation research and development, from $170.9 million in fiscal 1986 (assuming sequestration) to $34.4 million in 1987. The goal of the federal conservation R & D program is to expand the technological base industry can draw upon in developing new products and processes for the commercial marketplace. Therefore, conservation R & D helps to bring into use new energy-efficient products and improves the competitiveness and trade posture of the region's industries, many of which rely on older, energy-inefficient technologies. Cutbacks in federal energy R & D threaten the international competitiveness of U.S. firms marketing such products as solid-state flourescent lighting ballasts, permanent-magnet motors, and absorption heat pumps.

### B. Low-Income Home Energy Assistance (LIHEAP)

The administration is requesting $2.1 billion for the Low-Income Home Energy Assistance Program (LIHEAP), the same amount appropriated in fiscal 1986 prior to sequestration. LIHEAP provides block grants to states to help pay the fuel bills of low-income families by making direct cash payments to eligible households, fuel vendors, or, in some cases, public housing operators. The program also provides energy crisis assistance and permits states to set aside 15 percent of their grant for the weatherization of low-income homes. Because of its cold weather, older housing, high prices, heavy oil dependence, and large low-income population, the Northeast-Midwest region will receive 62 percent of LIHEAP funds in fiscal 1986. (See the table at the end of this section.) The allocation formula is based in part on the overall level of funding for LIHEAP. Therefore, the distribution among the states will be affected by sequestration.

Despite the level funding, the ability of LIHEAP to meet low-income heating and cooling needs has declined over the past several years. In 1980 federal energy assistance funding represented roughly 32 percent of the estimated $4.9 billion spent on the heating and cooling needs of eligible low-income households. In 1985, with the heating and cooling expenses of eligible households up to an estimated $12.5 billion, the $2.1 billion provided by LIHEAP represented only 17 percent of the need. Thus the portion of low-income heating and cooling needs met by federal assistance has declined by nearly half during the 1980s. Put another way, while the amount spent on heating and cooling by eligible low-income households more than doubled from 1980 to 1985 (due to price increases and expanded eligibility), federal assistance increased by only 31.3 percent.

Although world oil prices are declining, this has not eased the burden of high energy costs on low-income households in the Northeast and Midwest. Between 1981 and October 1985, residential natural gas and electricity prices increased by 51.7 percent and 24.5 percent -- more than offsetting the 13.5 percent decline in fuel oil prices. In addition, even though crude oil prices have declined dramatically in recent months, retail fuel oil prices are unlikely to drop as far. This has been the case in the past. For example, crude oil prices fell 24.4 percent from 1981 to October 1985, yet retail fuel oil prices fell only 13.5 percent. Finally, it is possible that some type of energy tax will be enacted by Congress this year, such as an oil import fee or an all-energy tax. Any such tax would keep energy prices from falling and maintain a major burden on low-income families. Low-income households pay a disporportionate share of their budgets for energy even though their consumption is lower. For low-income households, home energy costs represent about 20 percent of income, about four times the percentage of an average household. They also have the least ability to weatherize their homes, purchase more energy-efficient appliances, or make other energy conservation investments.

## C. Energy Supply Research and Development

The administration has requested $894.6 million for civilian nuclear research and development in fiscal 1987. This would represent a 7.7 percent decrease from the fiscal 1986 figure, assuming sequestration. However, prior year balances and adjustments would reduce the 1986 total by approximately another $19 million. The $82.8 million requested for fossil fuel R & D would represent a 73.5 percent reduction, and the $68.5 million asked for solar and other renewables would be a 60.3 percent decrease from 1986, assuming sequestration.

The fossil fuel program, which provides for long-term research and development, would suffer the largest cut, primarily because the coal R and D budget would be reduced by $163.8 million. This program funds research in coal liquefaction, surface coal gasification, control technology and coal preparation, combustion systems, fuel cells, and heat engine programs, in addition to advanced research at universities, national laboratories, and the Energy Technology Centers.

Coal is the primary fossil fuel resource in the Northeast-Midwest region; in 1984, the region accounted for 25 percent of the nation's coal production. Most of this coal has high sulphur content, and expanded utilization depends on efficient, cost-effective technologies to reduce emissions. In 1983, 59 percent of the region's electricity was generated from coal.

Funding for the newly-established clean coal technology program would be made available in accordance with provisions of the 1985 Continuing Resolution (99-190): $99.4 million in fiscal 1986; $149.1 million in 1987; and $149.1 million in 1988. This funding comes from a reserve of $750 million for clean coal technology established in 1984. The reserve finances the federal share of construction and operation of facilities that demonstrate clean coal technologies for future commercial applications. (For a more complete discussion of the clean coal technology program, see Section Three: Natural and Physical Resources.)

Expanded development of safe, indigenous solar and other renewable energy resources is important if states in the region are to increase their energy independence. Small dam hydropower is an old, familiar technology in the region, and alcohol fuels have been used with increasing success by farmers in the Midwest. Biomass is another technology that makes use of available resources, whether municipal waste or wood. Continued funding for new solar and renewable initiatives would increase the ability of states in the Northeast and Midwest to cope with fluctuations in world energy prices and disruptions of energy supplies, and would help keep dollars in the region that currently go to other states and countries.

## D. Energy Information Administration (EIA)

Budget authority in fiscal 1986 for EIA is $57.7 million, assuming sequestration; under the administration's proposal, EIA would receive $59.7 million in fiscal 1987. However, the budget request assumes an increase of $2.6 million in EIA's administrative support to the Department of Energy, while funding for the collection and publication of vital information would be cut by $2.8 million.

To meet its projected budget, EIA proposes to eliminate two state-level energy publications, the State Energy Data Report and the State Energy Price and Expenditures Report, and the Heating Oil Grant Program.

Allocation formulas for the Low-Income Home Energy Assistance Program (LIHEAP), the Low-Income Weatherization Program, and oil overcharge distributions -- totaling over $4 billion in 1986 -- rely on the state-level energy information published in the state reports. This data is essential to evaluate the potential impact of energy tax proposals now under consideration, such as an oil import fee and the Superfund petroleum excise tax, and the impact of federal energy policy on price and demand for energy over time. These issues are of great significance to the region and its states. EIA is the only source of comprehensive, consistent energy price and consumption data at the state level. Congress mandated the collection and publication of this information in Section 507 of the Energy Policy and Conservation Act.

The Heating Oil Grant Program provides states with funding for a heating oil inventory and price monitoring program, allowing them to track the retail price of fuel oil for residential customers on a biweekly basis. In fiscal 1986, 13 states in the Northeast-Midwest region participated in the program.

## E. Electricity

The administration has proposed $564.3 million in budget authority for power marketing administrations (PMAs) in fiscal 1987, a 1.1 percent increase over 1986, assuming sequestration. The administration wants to sell the Bonneville and Southwestern Power Administrations in 1988, and the other three PMAs by 1991, generating receipts of $12.6 billion. The fiscal 1987 budget also proposes to modify PMA capital investment repayment practices through legislation. These modifications would require repayment of the unpaid balance of the federal investment on a fixed schedule. This would increase federal receipts by $162 million in fiscal 1987.

The Bonneville Power Administration (BPA) operates on a self-financed revolving fund basis and does not require appropriations for operations. It does require borrowing authority to finance transmission system construction and to fund energy conservation and renewable energy resource development. The fiscal 1987 request includes borrowing from the Treasury of $171 million for transmission systems and $87 million for conservation. The request assumes that BPA's generation and transmission systems will be sold at a price equal to the unpaid federal investment of $8.85 billion on October 1, 1987, with payments to the Treasury over four years, starting in fiscal 1988. The administration's proposal to modify the repayment criteria would result in an additional $139 million in revenues in 1987.

The Western Area Power Administration (WAPA) represents a federal investment of $4.1 billion as of September 1985, of which $1.8 billion has been repaid. The budget request for WAPA covers construction and rehabilitation of power transmission facilities, operation and maintenance activities, conservation activities, and purchased power and wheeling expenses. Part of its $84 million construction budget would pay for construction of ten substations and 400 miles of transmission lines.

PMAs enjoy large taxpayer subsidies because they repay the federal Treasury at interest rates well below the Treasury's cost of borrowing. For example, the second powerhouse at the Bonneville Dam, a $639 million investment, was placed in service during 1981-1983 and is being repaid at an interest rate of 3.25 percent. Treasury long-term interest rates at that time ranged from 11.1 percent to 13.9 percent. The Treasury subsidy will be $62 million per year until 2020, when BPA plans to repay the debt. The subsidy will total $2.5 billion for this investment alone, according to the administration.

The Northeast-Midwest region is the only part of the country not served by a power marketing administration, even though it is the region with the highest electricity rates. Residential electricity prices varied in 1983 from 15.8cents/kWh in New York City to 1.6 cents/kWh in Seattle, an 890 percent difference. In 1982, average industrial electricity prices in Rhode Island were 303 percent higher than in the state of Washington. In addition, the region's utilities will have invested an estimated $67 billion in nuclear power generation by the time plants currently under construction are completed, possibly requiring rate increases of 9 to 121 percent in the first year of operation.

The region also could need the equivalent of up to 79 new power plants at an estimated cost of $180 billion by the year 2000. Several strategies have been proposed for meeting that projected demand and keeping costs down: increased purchase of bulk power from Canadian and domestic sources, conservation and load management, and development of small-scale renewables. Several institutional barriers limit these options, however, including the lack of a marketing structure, limited transmission capacity, and the need for regulatory changes. The Congressional Research Service suggests that regional approaches to planning and standards with prices set by the marketplace could result in a cheaper future supply of electricity.

Representatives Bruce F. Vento (D-MN) and James M. Jeffords (R-VT), co-chairs of the Northeast-Midwest Congressional Coalition's Electricity Task Force, and Edward J. Markey (D-MA), who chairs the Subcommittee on Energy Conservation and Power, have introduced the Regional Power Planning and Regulatory Coordination Act (H.R. 3074). This legislation would provide the approval needed for regions to evaluate the most environmentally sound, lowest cost sources to meet projected demand; require the implementation of policies to encourage transmission; and change regulatory practices.

## Low-Income Energy Expenditures and Programs
(in thousands of dollars)

| | | Low-Income Home Energy Assistance Program | | |
|---|---|---|---|---|
| Region and State | Low-Income Home Energy Expenditures Fiscal 1985 | Households Receiving Assistance Fiscal 1985 | Allocation[1] Fiscal 1986 | Weatherization[1] Assistance Program Fiscal 1986 |
| **New England** | | | | |
| Connecticut | 325,268 | 75,851 | 41,344 | 2,614 |
| Maine | 120,357 | 60,382 | 26,784 | 3,090 |
| Massachusetts | 645,039 | 149,400 | 82,701 | 6,272 |
| New Hampshire | 73,799 | 26,508 | 15,654 | 1,562 |
| Rhode Island | 101,456 | 29,643 | 13,613 | 1,145 |
| Vermont | 41,578 | 20,038 | 11,733 | 1,297 |
| Total | 1,307,497 | 361,822 | 191,829 | 15,980 |
| **Mid-Atlantic** | | | | |
| Delaware | 58,378 | 13,236 | 5,989 | 569 |
| Maryland | 399,702 | 89,833 | 37,471 | 2,449 |
| New Jersey | 876,891 | 190,000 | 86,626 | 5,247 |
| New York | 2,125,613 | 1,033,000 | 250,683 | 19,548 |
| Pennsylvania | 1,106,682 | 356,472 | 134,653 | 12,552 |
| Total | 4,567,266 | 1,682,541 | 515,422 | 40,365 |
| **Midwest** | | | | |
| Illinois | 1,097,666 | 450,000 | 121,421 | 11,568 |
| Indiana | 508,985 | 159,286 | 54,546 | 5,418 |
| Iowa | 307,505 | 106,552 | 36,720 | 4,553 |
| Michigan | 1,023,085 | 300,000 | 114,998 | 12,811 |
| Minnesota | 521,588 | 134,000 | 78,271 | 9,539 |
| Ohio | 1,094,349 | 450,000 | 113,925 | 10,748 |
| Wisconsin | 491,310 | 214,000 | 70,456 | 7,804 |
| Total | 5,044,488 | 1,813,838 | 590,337 | 62,441 |
| Missouri | 602,564 | 147,224 | 50,087 | 5,002 |
| Total with Missouri | 5,647,052 | 1,961,062 | 640,424 | 67,443 |
| **Northeast** | 5,874,763 | 2,044,363 | 707,251 | 56,345 |
| **Midwest*** | 5,044,488 | 1,813,838 | 590,337 | 62,441 |
| **Northeast and Midwest*** | 10,919,251 | 3,858,201 | 1,297,588 | 118,786 |
| **South** | 5,765,631 | 1,671,505 | 391,628 | 29,419 |
| **West** | 4,643,646 | 1,236,582 | 405,706 | 40,445 |
| **South and West** | 10,409,277 | 2,908,087 | 797,334 | 69,864 |
| **U.S. Total** | 21,328,528 | 6,766,288 | 2,094,922 | 188,650 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Allocations do not reflect the 4.3 percent cut scheduled to take place under sequestration.

SOURCES: Staff calculations from U.S. Department of Health and Human Services, Social Security Administration, Office of Family Assistance, "FY 1986 LIHEAP Allotment Data Base," unpublished data, January 1986; Report on the Low-Income Energy Assistance Program as Requested by the Senate Committee on Appropriations (Washington, D.C., February 25, 1985); Low-Income Home Energy Assistance Information Memorandum, August 27, 1985; and U.S. Department of Energy, Office of Low-Income Weatherization Assistance, unpublished data, December 1985.

## State Energy Expenditures and Potential Energy Conservation Savings

| | Total 1982 State Energy Expenditures (in millions) | Average 1981 Household Energy Costs[1] (in dollars) | Potential 1981 Energy Conservation Savings | |
|---|---|---|---|---|
| | | | Dollars | Percent |
| **New England** | | | | |
| Connecticut | 5,576 | 1,533 | 561 | 36.6 |
| Maine | 2,407 | 1,312 | 244 | 18.6 |
| Massachusetts | 9,545 | 1,334 | 292 | 21.9 |
| New Hampshire | 1,491 | 1,441 | 315 | 21.9 |
| Rhode Island | 1,403 | 1,205 | 188 | 15.6 |
| Vermont | 795 | 1,389 | 316 | 22.8 |
| Total or Average | 21,217 | 1,382 | 343 | 24.8 |
| **Mid-Atlantic** | | | | |
| Delaware | 1,139 | 1,167 | 209 | 17.9 |
| Maryland | 7,235 | 1,085 | 374 | 34.5 |
| New Jersey | 15,250 | 1,413 | 466 | 33.0 |
| New York | 26,221 | 1,093 | 238 | 21.8 |
| Pennsylvania | 19,592 | 1,153 | 409 | 35.4 |
| Total or Average | 69,437 | 1,166 | 339 | 28.8 |
| **Midwest** | | | | |
| Illinois | 19,831 | 1,025 | 378 | 36.9 |
| Indiana | 10,918 | 1,005 | 375 | 37.3 |
| Iowa | 5,775 | 1,071 | 377 | 35.2 |
| Michigan | 14,786 | 1,028 | 348 | 33.9 |
| Minnesota | 7,235 | 1,015 | 288 | 28.4 |
| Ohio | 20,333 | 1,050 | 368 | 35.1 |
| Wisconsin | 7,986 | 1,081 | 341 | 31.6 |
| Total or Average | 86,863 | 1,036 | 359 | 34.6 |
| Missouri | 8,624 | 904 | 320 | 35.4 |
| Total with Missouri | 95,487 | 1,024 | 355 | 34.7 |
| **Northeast** | 90,654 | 1,215 | 341 | 27.9 |
| **Midwest*** | 86,863 | 1,036 | 359 | 34.6 |
| **Northeast and Midwest*** | 177,517 | 1,130 | 350 | 31.1 |
| **South** | 147,487 | 918 | 301 | 33.1 |
| **West** | 94,726 | 727 | 227 | 30.9 |
| **South and West** | 242,212 | 834 | 269 | 32.1 |
| **U.S. Total** | 419,729 | 968 | 305 | 31.7 |

*Regional totals do not include Missouri figures; they are included under West.

[1] Excludes motor gasoline consumption.

SOURCES: Staff calculations from U.S. Department of Energy, Energy Information Administration, Energy Price and Expenditures Report, 1970-1982 (Washington, D.C., July 1985); U.S. Bureau of the Census, Statistical Abstract of the United States: 1984 (Washington, D.C., 1985); and Congressional Research Service, "Residential Energy Conservation: How Far Have We Progressed and How Much Further Can We Go?", Washington, D.C., 1984. Potential energy savings per household calculated by multiplying average household energy costs by energy conservation potential.

## SECTION FIVE: DEFENSE

As has been the case since President Reagan took office in 1981, the adminstration is requesting large budget increases for Department of Defense (DoD) programs. The pattern of distribution and purpose of these expenditures -- which include spending for procurement, research and development, personnel, and military construction -- have a significant impact on the economy of the nation and the Northeast-Midwest region.

Defense continues to be one of the most regionally imbalanced categories of federal spending. Further substantial increases in the defense budget and cuts in the domestic budget will lower the region's share of federal expenditures. The Northeast and Midwest receive a smaller proportion of spending for prime contracts, research and development, payroll, and military construction than the South and West, in both absolute and per capita terms. In fiscal 1984, the Northeast-Midwest region received only 32.5 percent of these DoD expenditures. Despite steep increases in total defense outlays and the positive economic impact of these expenditures on such states as Massachusetts and Connecticut, the region's percentage share of defense spending has not increased significantly since 1981. However, small improvements have been registered in most categories over the past two years. Within the region, the Midwest receives a particularly small percentage in all categories, especially R & D and prime contracts.

Total budget authority for DoD military programs would increase by 11.9 percent in fiscal 1987, from $278.4 billion this year (assuming sequestration) to $311.6 billion. Outlays would increase by $15.8 billion, or 6.1 percent, over current post-sequestration levels. The largest percentage growth in the defense budget would be in military construction; in fiscal 1985 only 17 percent of these funds went to Northeastern and Midwestern states. Budget authority for research, development, test, and evaluation would increase by $8.2 billion, or 24 percent. The region received 41 percent of these funds in fiscal 1984.

In a change from last year's proposal, budget authority for procurement would increase at less than the rate of inflation, while budget authority for military personnel and operations and maintenance would rise substantially. In fiscal 1985, the Northeast-Midwest region received 39 percent of military prime contracts. The region's share of the military payroll in fiscal 1984 was 21 percent.

The proposed budget reflects the administration's continuing desire to increase funding for national defense significantly. Last year, for the first time in his administration, the president agreed to a decrease in budget authority (after adjustment for inflation). With the further reductions assumed by Gramm-Rudman-Hollings, DoD's new budget authority for fiscal 1986 could experience an actual decline for the first time in 15 years. The administration's budget proposes to make that decline only a temporary pause in an ongoing buildup of the nation's military capacity. In any case, defense outlays will continue to increase because of commitments made in previous years.

## Budget Summary
(in billions of dollars)

| | 1981 | 1985 | 1986 | 1987 | Percent Change 1986-1987 | |
|---|---|---|---|---|---|---|
| | | | | | Nominal | Adjusted for Inflation |
| **Military Personnel**[1] | | | | | | |
| Budget Authority | 64.61 | 67.77 | 67.72 | 77.45 | 14.37 | 9.86 |
| Outlays | 64.14 | 67.84 | 71.46 | 76.88 | 7.58 | 3.35 |
| **Operations and Maintenance** | | | | | | |
| Budget Authority | 55.55 | 77.80 | 74.85 | 85.77 | 14.59 | 10.08 |
| Outlays | 51.92 | 72.35 | 74.14 | 80.87 | 9.08 | 4.78 |
| **Procurement** | | | | | | |
| Budget Authority | 48.03 | 96.84 | 92.61 | 95.78 | 3.42 | -0.65 |
| Outlays | 35.19 | 70.38 | 75.70 | 76.71 | 1.33 | -2.66 |
| **Research and Development** | | | | | | |
| Budget Authority | 16.61 | 31.33 | 33.74 | 41.93 | 24.27 | 19.38 |
| Outlays | 15.28 | 27.10 | 28.70 | 31.62 | 10.17 | 5.83 |
| **Military Construction** | | | | | | |
| Budget Authority | 3.40 | 5.52 | 5.28 | 6.74 | 27.65 | 22.62 |
| Outlays | 2.46 | 4.26 | 4.55 | 4.59 | 0.88 | -3.09 |
| **Family Housing** | | | | | | |
| Budget Authority | 2.00 | 2.89 | 2.80 | 3.40 | 21.43 | 16.65 |
| Outlays | 1.72 | 2.64 | 2.45 | 2.49 | 1.60 | -2.37 |
| **Other** | | | | | | |
| Budget Authority | 2.03 | 5.18 | 2.12 | 1.27 | -40.09 | -42.45 |
| Outlays | -0.61 | 1.33 | 2.14 | 1.85 | -13.55 | -16.96 |
| **Offsetting Receipts** | | | | | | |
| Budget Authority | 0.00 | -0.53 | -0.71 | -0.74 | 4.23 | 0.12 |
| Outlays | 0.00 | -0.53 | -0.71 | -0.74 | 4.23 | 0.12 |
| **Subtotal DoD** | | | | | | |
| Budget Authority | 179.39 | 286.80 | 278.41 | 311.60 | 11.92 | 7.51 |
| Outlays | 156.10 | 245.37 | 258.43 | 274.27 | 6.13 | 1.95 |
| **Atomic Energy** | | | | | | |
| Budget Authority | 3.66 | 7.33 | 7.23 | 8.23 | 13.83 | 9.35 |
| Outlays | 3.40 | 7.10 | 7.15 | 7.71 | 7.83 | 3.59 |
| **Defense-Related** | | | | | | |
| Budget Authority | 0.37 | 0.53 | 0.47 | 0.51 | 8.51 | 4.24 |
| Outlays | 0.28 | 0.28 | 0.25 | 0.27 | 8.00 | 3.75 |
| **Total National Defense** | | | | | | |
| Budget Authority | 182.41 | 294.66 | 286.12 | 320.34 | 11.96 | 7.55 |
| Outlays | 159.77 | 252.75 | 265.83 | 282.24 | 6.17 | 1.99 |

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[1] Military personnel includes allowances for net military and civilian pay raises and benefits.

Using the program levels agreed to in the 1986 congressional budget resolution as a base line, the administration claims its fiscal 1987 budget proposal would represent a 3 percent increase in defense spending after inflation. However, that budget resolution did not include the cuts in defense agreed to before the end of the year, nor did it reflect the sequestration cuts scheduled to take effect on March 1, 1986, under Gramm-Rudman-Hollings. Given a fiscal 1986 base line that includes both of these cuts, the administration is asking for a $33.2 billion increase in budget authority, or 8 percent after inflation.

Increases in DoD budget authority in later years are projected at unadjusted rates of 6.7 percent in fiscal 1988 and 6.4 percent in fiscal 1989. Under the president's request, total budget authority for national defense -- including some atomic energy programs at the Department of Energy and other defense-related activities (such as the Federal Emergency Management Agency and the Selective Service) -- in fiscal 1987 would be $320.3 billion, an increase of 12 percent from current levels. This would represent 29.1 percent of the federal budget in fiscal 1987, up from 26.8 percent in 1986.

The administration projects that DoD outlays in fiscal 1987 will rise from $258.4 billion (assuming sequestration) to $274.3 billion, an increase of $15.9 billion. When this increase is combined with reductions in nondefense outlays, the fiscal 1987 budget deficit would be $143.6 billion, just under the target of $144 billion required by Gramm-Rudman-Hollings. However, the Congressional Budget Office has challenged the projected figures for Pentagon spending. CBO's preliminary calculations show that outlays in fiscal 1986 will be $3.6 billion more than stated in the president's request, and in fiscal 1987 the discrepancy would increase to $14.7 billion. If these calculations are accurate, the president's budget request for fiscal 1987 is not in compliance with the deficit provisions of Gramm-Rudman-Hollings.

The sequestration scheduled to take effect on March 1 would cut current DoD budget authority and obligated balances by 13.3 billion, and outlays by 5.1 billion. This would represent a 4.9 percent cut in all non-exempt defense programs. Gramm-Rudman-Hollings granted the president special authority for fiscal 1986 only to exempt almost all military personnel accounts from sequestration. Had he not exempted these accounts, the across-the-board cut in non-exempt DoD programs would have been 3.1 percent. The president also used a one-time grant of special authority to exempt fully the Strategic Defense Initiative program and 19 other specific procurement and research programs from any automatic cuts. The president chose not to exercise continuing authority granted to him to substitute cuts in spending under existing contracts for cuts in new budget authority and unobligated balances.

## Research, Development, Test, and Evaluation (RDT&E)

Budget authority in fiscal 1987 for the RDT&E title would be $41.9 billion. This would represent an increase of $8.2 billion, or 24.3 percent, over 1986 levels (assuming sequestration), and would be two and one-half times the size of RDT&E activity in 1981. Almost 25 percent of this increase will go for the Strategic Defense Initiative. Outlays would increase by $2.9 billion, or 10.2 percent.

The Department of Defense would spend 69 percent of total federal funds for research and development in fiscal 1987. R & D activities help to maintain the nation's scientific and technological position in the world, and DoD expenditures exert a strong influence over the direction of these endeavors. As foreign competition expands, advances stemming from R & D are increasingly important to the basic and high technology manufacturing industries in the Northeast and Midwest, which must utilize technological innovation to enhance their economic competitiveness. The Northeast-Midwest region received 41 percent of DoD research and development obligations in fiscal 1984. (For further detail, see the table at the end of this section.) Northeastern and Midwestern industrial firms and the Federally Funded Research and Development Centers (FFRDC) they administer received 83.5 percent of their total federal R & D funds from DoD.

## Procurement

The president is requesting budget authority for procurement of $95.8 billion, a $3.2 billion, or 3.4 percent, increase over fiscal 1986 levels (assuming sequestration). This is the smallest proposed increase since the Reagan administration took office. Outlays would grow at an even slower 1.3 percent rate. Procurement is the largest single category of defense spending and, until last year, one of the fastest growing. Because procurement activity can be shifted more easily than other types of defense spending -- military construction and payroll, for example -- and because the large number of dollars can have a major impact on the economic fortunes of communities and states, the distribution of prime contracts is of great interest to the Northeast and Midwest. In fiscal 1985, the region received 39 percent of military prime contracts.

Within the region, New York, Massachusetts, and Connecticut received the largest dollar amounts of prime contracts, while Connecticut, Massachusetts, and Maryland received the highest per capita average. Only five of the 18 states in the region, with only 15 percent of the population, received more than the national per capita average of prime contract dollars. All seven Midwestern states were below the national average of $587, with the region as a whole averaging $334. (For a state-by-state breakdown, see the table at the end of this section.)

One legislative initiative designed to help firms compete for defense contracts is the Procurement Technical Assistance Cooperative Agreements program. Designed by the leaders of the Northeast-Midwest Senate and Congressional Coalitions, this program provides matching federal money to state, local, and private non-profit organizations for procurement outreach centers. Last year, Congress increased appropriations for the program from $2 million in fiscal 1985 to $7.5 million for fiscal 1986.

## Military Personnel

Military personnel would receive an unusually large increase in budget authority in fiscal 1987, from $67.7 billion to $74.5 billion, a jump of 14.4 percent. This includes a net $3.25 billion increase in budget authority for civilian and military pay raises and benefits. Military personnel outlays would increase by $5.4 billion.

The location of military personnel is of concern to the states because the money paid to personnel is spent largely in the immediate area and can have an important effect on the local economy. The distribution of military personnel is heavily skewed against the Northeast and Midwest. Less than 20 percent of all DoD personnel, and only 13.7 percent of active duty personnel, were located in the region in fiscal 1983. The placement of one-half of a light division at Fort Drum, New York, and the choice of Staten Island as a home port for a new battleship group should help reduce the disparity. The region's share of the military payroll in fiscal 1984 was 21 percent.

## Military Construction

Budget authority for military construction would increase 27.6 percent in fiscal 1987, the largest percentage growth in the defense budget. The actual dollar increase of $1.5 billion is relatively small, however, and outlays would grow by less than one percent. The Northeast-Midwest region, which has 33 percent of all military installations, received only 17 percent of military construction funds in fiscal 1985. Twelve of the 18 states in the region received less than one percent of the total; only 10 of the 32 states in the South and West received less than one percent. The expenditure of military construction funds at a base frequently assures that the base will not be closed or its mission discontinued in the near future. The low percentage of military construction spending in the region could threaten the existence of some of the remaining installations, and thus cause disruption in local economies.

## Military Prime Contract Awards[1]: Fiscal 1985

| Region and State | Amount (in millions of dollars) | Percent of U.S. Total[2] | Per Capita Average |
|---|---|---|---|
| **New England** | | | |
| Connecticut | 5,543.4 | 4.0 | 1,747 |
| Maine | 956.8 | 0.7 | 822 |
| Massachusetts | 7,713.5 | 5.5 | 1,325 |
| New Hampshire | 678.2 | 0.5 | 680 |
| Rhode Island | 431.3 | 0.3 | 446 |
| Vermont | 163.4 | 0.1 | 305 |
| Total or Average | 15,486.6 | 11.0 | 1,223 |
| **Mid-Atlantic** | | | |
| Delaware | 261.4 | 0.2 | 420 |
| Maryland | 4,608.1 | 3.3 | 1,049 |
| New Jersey | 3,862.1 | 2.8 | 511 |
| New York | 10,032.7 | 7.2 | 564 |
| Pennsylvania | 4,148.7 | 3.0 | 350 |
| Total or Average | 22,913.1 | 16.4 | 543 |
| **Midwest** | | | |
| Illinois | 1,693.4 | 1.2 | 147 |
| Indiana | 3,176.8 | 2.3 | 578 |
| Iowa | 589.8 | 0.4 | 204 |
| Michigan | 2,789.0 | 2.0 | 307 |
| Minnesota | 2,297.9 | 1.6 | 548 |
| Ohio | 4,648.3 | 3.3 | 433 |
| Wisconsin | 1,064.5 | 0.8 | 223 |
| Total or Average | 16,259.7 | 11.6 | 334 |
| Missouri | 7,612.7 | 5.4 | 1,514 |
| Total with Missouri | 23,872.4 | 17.0 | 490 |
| **Northeast** | 38,399.7 | 27.4 | 700 |
| **Midwest*** | 16,259.7 | 11.6 | 334 |
| **Northeast and Midwest*** | 54,659.4 | 39.0 | 528 |
| **South** | 35,846.5 | 25.6 | 466 |
| **West** | 49,590.4 | 35.4 | 851 |
| **South and West** | 85,436.9 | 61.0 | 632 |
| **U.S. Total[3]** | 140,096.3 | 100.0 | 587 |

*Regional totals do not include Missouri figures; they are included under West.

[1] These awards include contract actions over $25,000; all figures include procurement for civil functions. Note: Contract work is not necessarily performed in the state where the contract is awarded. Most manufacturing contracts have been attributed to the contractor's location where the product will be processed and assembled. If contract work has been performed at more than one plant, the contract is attributed to the location where the largest dollar volume of work is performed. Contracts for transportation and communications services have been attributed to the state where the contractor's home office is located.

[2] Percentages may not add due to rounding.

[3] The U.S. total excludes contract actions not distributed by state, such as those to the U.S. Territories and to classified areas.

SOURCE: Staff calculations from U.S. Department of Defense, Prime Contract Awards by State -- Fiscal Year 1985 (Washington, D.C., February 1986).

## Selected Defense Expenditures

| | Fiscal 1984 | | | | Fiscal 1985 | |
|---|---|---|---|---|---|---|
| | Payroll[2] | | Research and Development[3] | | Military Construction[4] | |
| Region and State | Amount (millions of dollars) | Percent of U.S. Total[1] | Amount (millions of dollars) | Percent of U.S. Total[1] | Amount (millions of dollars) | Percent of U.S. Total[1] |
| **New England** | | | | | | |
| Connecticut | 517.0 | 0.7 | 424.9 | 1.7 | 36.5 | 0.9 |
| Maine | 313.4 | 0.4 | 8.8 | ** | 32.8 | 0.8 |
| Massachusetts | 830.6 | 1.1 | 2,174.6 | 8.6 | 13.2 | 0.3 |
| New Hampshire | 456.9 | 0.6 | 88.9 | 0.4 | 10.7 | 0.3 |
| Rhode Island | 314.8 | 0.4 | 259.4 | 1.0 | 34.5 | 0.8 |
| Vermont | 54.2 | 0.1 | 13.2 | 0.1 | 00.0 | 0.0 |
| Total | 2,486.9 | 3.4 | 2,969.8 | 11.8 | 127.7 | 3.1 |
| **Mid-Atlantic** | | | | | | |
| Delaware | 191.6 | 0.3 | 31.9 | 0.1 | 2.1 | 0.1 |
| Maryland | 2,368.5 | 3.2 | 2,128.1 | 8.4 | 148.3 | 3.6 |
| New Jersey | 1,434.7 | 2.0 | 1,243.9 | 4.9 | 49.3 | 1.2 |
| New York | 1,284.5 | 1.7 | 1,462.4 | 5.8 | 65.8 | 1.6 |
| Pennsylvania | 2,185.9 | 3.0 | 566.1 | 2.2 | 84.1 | 2.0 |
| Total | 7,465.2 | 10.2 | 5,432.4 | 21.5 | 349.6 | 8.5 |
| **Midwest** | | | | | | |
| Illinois | 1,592.2 | 2.2 | 132.9 | 0.5 | 105.9 | 2.6 |
| Indiana | 744.4 | 1.0 | 98.6 | 0.4 | 29.3 | 0.7 |
| Iowa | 158.5 | 0.2 | 41.2 | 0.2 | 1.2 | ** |
| Michigan | 749.9 | 1.0 | 287.7 | 1.1 | 25.1 | 0.6 |
| Minnesota | 258.5 | 0.3 | 464.1 | 1.8 | 4.7 | 0.1 |
| Ohio | 1,595.0 | 2.2 | 971.8 | 3.8 | 46.5 | 1.1 |
| Wisconsin | 304.3 | 0.4 | 11.2 | ** | 5.9 | 0.1 |
| Total | 5,402.8 | 7.3 | 2,007.5 | 7.9 | 218.6 | 5.3 |
| Missouri | 1,170.6 | 1.6 | 534.9 | 2.1 | 16.7 | 0.4 |
| Total with Missouri | 6,573.4 | 8.9 | 2,542.5 | 10.0 | 235.3 | 5.7 |
| **Northeast** | 9,952.1 | 13.6 | 8,402.2 | 33.3 | 477.3 | 11.7 |
| **Midwest*** | 5,402.8 | 7.3 | 2,007.5 | 7.9 | 218.6 | 5.3 |
| **Northeast and Midwest*** | 15,354.9 | 20.9 | 10,409.7 | 41.2 | 695.9 | 17.0 |
| **South** | 33,514.2 | 45.7 | 5,568.1 | 22.0 | 1,700.3 | 41.5 |
| **West** | 24,477.5 | 33.4 | 9,307.9 | 36.8 | 1,696.9 | 41.5 |
| **South and West** | 57,991.7 | 79.1 | 14,876.0 | 58.8 | 3,397.2 | 83.0 |
| **U.S. Total** | 73,346.6 | 100.0 | 25,285.7 | 100.0 | 4,093.1 | 100.0 |

*Regional totals do not include Missouri figures; they are included under West.
**Less than 0.05 percent.

[1] Percentages may not total due to rounding.

[2] Figures include active duty military and civilian, reserve, National Guard, and retired pay.

[3] Figures include awards to industrial firms, universities and colleges, and federal agencies.

[4] Figures include active duty, reserve, and National Guard. They do not include family housing.

SOURCES: Staff calculations from U.S. Department of Defense, Atlas/State Data Abstract for the United States, Fiscal Year 1984 (Washington, D.C., 1985); National Science Foundation, Federal Funds for Research and Development, Vol. XXXIV (Washington, D.C., 1985); and U.S. Department of Defense, Construction Programs C-1 Fiscal Years 1984-1986 (Washington, D.C., 1985).

## SECTION SIX: ECONOMIC COMPETITIVENESS

The competitiveness of U.S. industries in the international economy has become a vital issue to the nation and its industries and workers. The importance government, business, labor, and academic leaders attach to this issue is highlighted by the 17 major studies on U.S. competitiveness that have been published in the last three years, including the report by the President's Commission on Industrial Competitiveness. Virtually every study has emphasized the challenges international competition presents to the nation's industries, and the importance of research, development, and technology in maintaining or improving their competitiveness.

The federal government plays a critical role in determining U.S. economic competitiveness. It funds almost half of the nation's R & D -- strongly influencing the direction and purpose of private-sector R & D spending -- and sets trade policies that greatly affect import and export activities. The federal budget process sets the priorities for federal R & D and offers an indication of the government's priorites in trade through its funding of the many agencies and programs that perform trade-related functions.

All regions of the country are affected by the competitiveness of U.S. industries. However, trade -- both exports and imports -- is of particular interest to states in the Northeast-Midwest region. Because of its substantial farm sector and high share of manufacturing and export-related jobs, the region is affected disproportionately when U.S. exports decline and manufactured imports increase. In addition, the high proportion of technology-intensive jobs and industry's need to use technology to compete effectively make the region sensitive to federal R & D spending and priorities.

Many members of the Northeast-Midwest Congressional Coalition have participated in a unique joint project with the Business-Higher Education Forum designed to enhance American industrial competitiveness. The Forum -- a select group of corporate and academic leaders -- and members of Congress have undertaken an extensive review of the many studies of industrial competitiveness, with the goal of building consensus around a handful of the most important public and private actions needed to help American companies and workers compete in markets here and abroad. In a series of regional meetings, participants identified key goals and recommendations in four areas: university R & D; trade policy; education and training; and science and technology policy.

### A. Research and Development

Research and development is one of the few budget areas that would receive an increase in funding under the president's request for fiscal 1987. Total federal spending sought for R & D is $62.5 billion, an increase of 16.2 percent from the fiscal 1986 level (assuming sequestration). Most of the additional spending would go to space and defense programs -- in particular the Strategic Defense Initiative (SDI) and nuclear weapons. More than 97 percent of the fiscal 1987 total would go for R & D activities, with only $1.7 billion designated for R & D facilities, a decrease of $78 million from this year.

## BUDGET SUMMARY
(in millions of dollars)

| | | | | | Percent Change 1986-1987 | |
|---|---|---|---|---|---|---|
| | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
| Research and Development | | | | | | |
| **R & D Activities** | | | | | | |
| Obligations | 35,033 | 49,491 | 52,024 | 60,803 | 16.87 | 12.27 |
| Outlays | 34,252 | 45,244 | 47,832 | 51,418 | 7.50 | 3.26 |
| Defense | | | | | | |
| Obligations | 17,841 | 33,350 | 35,731 | 44,432 | 24.35 | 19.45 |
| Outlays | 17,039 | 30,069 | 31,603 | 35,231 | 11.48 | 7.09 |
| Non-Defense | | | | | | |
| Obligations | 17,192 | 16,141 | 16,296 | 16,370 | 0.48 | -3.48 |
| Outlays | 17,213 | 15,175 | 16,229 | 16,187 | -0.26 | -4.19 |
| **R & D Facilities** | | | | | | |
| Obligations | 1,480 | 1,894 | 1,812 | 1,734 | -4.30 | -8.07 |
| Outlays | 1,627 | 1,784 | 1,690 | 1,730 | 2.37 | -1.66 |
| **Total R & D** | | | | | | |
| Obligations | 36,513 | 51,385 | 53,836 | 62,537 | 16.16 | 11.59 |
| Outlays | 35,879 | 47,028 | 49,522 | 53,148 | 7.32 | 3.10 |
| **Basic Research** | | | | | | |
| Obligations | 5,108 | 7,769 | 8,017 | 8,630 | 7.65 | 3.41 |
| Outlays | 4,975 | 7,076 | 7,915 | 8,279 | 4.60 | 0.48 |
| **National Science Foundation** | | | | | | |
| Budget Authority | 1,036 | 1,505 | 1,463 | 1,691 | 15.58 | 11.03 |
| Outlays | 981 | 1,313 | 1,490 | 1,631 | 9.46 | 5.15 |
| Research and Related Activities | | | | | | |
| Budget Authority | 952 | 1,306 | 1,294 | 1,479 | 14.30 | 9.80 |
| Outlays | 904 | 1,180 | 1,293 | 1,426 | 10.29 | 5.94 |
| Science and Engineering Education Activities | | | | | | |
| Budget Authority | 71 | 82 | 53 | 89 | 67.92 | 61.31 |
| Outlays | 66 | 60 | 74 | 86 | 16.22 | 11.64 |

**BUDGET SUMMARY** (continued)
(in millions of dollars)

|  |  |  |  |  | Percent Change 1986-1987 |  |
|---|---|---|---|---|---|---|
|  | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
| **Commerce Department** |  |  |  |  |  |  |
| Science and Technology |  |  |  |  |  |  |
| Budget Authority | 1,102 | 1,588 | 1,315[1] | 1,237 | -5.93 | -9.64 |
| Outlays | 1,141 | 1,304 | 1,364[1] | 1,388 | 1.76 | -2.25 |
| Research and Development |  |  |  |  |  |  |
| Obligations | 328 | 399 | 380 | 297 | -21.84 | -24.92 |
| Outlays | 334 | 373 | 383 | 311 | -18.80 | -22.00 |
| **International Development Assistance** |  |  |  |  |  |  |
| Multilateral Assistance |  |  |  |  |  |  |
| Budget Authority | 1,266 | 1,907 | 1,369[2] | 1,578 | 15.29 | 10.75 |
| Outlays | 1,291 | 1,763 | 1,489[2] | 1,799[2] | 20.84 | 16.08 |
| Trade and Development Program |  |  |  |  |  |  |
| Budget Authority | NA | 21 | 18 | 18 | -0.48 | -4.40 |
| Outlays | NA | 13 | 17 | 19 | 9.73 | 5.41 |
| **Export-Import Bank** |  |  |  |  |  |  |
| Budget Authority | 6,908 | 0 | 0 | 0 | 0.00 | 0.00 |
| Outlays | 2,066 | -384 | -156 | -955 | 512.05 | 487.94 |
| **Fair Export Financing Program** |  |  |  |  |  |  |
| Budget Authority | NA | NA | NA | 300 | 0.00 | 0.00 |
| Outlays | NA | NA | NA | 16 | 0.00 | 0.00 |
| **Overseas Private Investment Corporation** |  |  |  |  |  |  |
| Budget Authority | 0 | 0 | 0 | 0 | 0.00 | 0.00 |
| Outlays | -72 | -99 | -110 | -113 | 2.02 | -2.00 |
| **Foreign Agicultural Service** |  |  |  |  |  |  |
| Budget Authority | 61 | 84 | 79 | 72 | -9.55 | -13.12 |
| Outlays | 56 | 76 | 81 | 70 | -13.60 | -17.01 |

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[1] Includes a proposed rescission of $85 million budget authority and $41 million in outlays for fiscal 1986.

[2] Includes a proposed rescission of $40 million in budget authority and $27 million in outlays in fiscal 1987.

**BUDGET SUMMARY** (continued)
(in millions of dollars)

| | | | | | Percent Change 1986-1987 | |
|---|---|---|---|---|---|---|
| | 1981 | 1985 | 1986 | 1987 | Nominal | Adjusted for Inflation |
| **Office of the United States Trade Representative** | | | | | | |
| Budget Authority | 9.4 | 13.6 | 12.6 | 12.2 | -2.99 | -6.81 |
| Outlays | 8.3 | 12.9 | 12.7 | 12.1 | -4.79 | -8.54 |
| **International Trade Administration** | | | | | | |
| Budget Authority | 117 | 190 | 174[3] | 179 | 3.23 | -0.84 |
| Outlays | 121 | 183 | 161[3] | 176 | 9.16 | 4.86 |
| **International Trade Commission** | | | | | | |
| Budget Authority | 17 | 25 | 27 | 30 | 8.51 | 4.24 |
| Outlays | 16 | 21 | 28 | 30 | 3.69 | -0.40 |
| **United States Customs Service** | | | | | | |
| Budget Authority | 589 | 829 | 850[4] | 872 | 2.59 | -1.45 |
| Outlays | 575 | 755 | 925[4] | 902[4] | -2.52 | -6.36 |

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[3] Includes a proposed rescission of $10 million in budget authority and $11 million in outlays in fiscal 1986.

[4] Includes a proposed rescission of $23 million in budget authority and $16 million in outlays in fiscal 1986, and $6 million in outlays in fiscal 1987.

R & D activities help to maintain the nation's scientific and technological leadership in the world economy. They are particularly important to Northeastern and Midwestern states, whose older manufacturing and high technology industries depend upon technological innovation to enhance their economic competitiveness.

Federal spending on defense R & D would continue to increase rapidly in fiscal 1987. Non-defense R & D as a whole would rise only slightly, despite signs that U.S. civilian technological and industrial competitiveness is declining. The defense-related share of federal R & D would rise from 68.7 percent to 73.1 percent.

Large increases in obligations for National Science Foundation basic research and the National Aeronautics and Space Administration would offset cumulative decreases in all other non-defense R & D. In fiscal 1984, the

Northeast and Midwest received 41.2 percent of Department of Defense (DoD) funds for R & D and the same share of non-defense R & D expenditures, up slightly from the previous year.

The National Science Foundation (NSF), whose principal mission is to support research in all fields of science and engineering, would receive $1.7 billion in fiscal 1987 budget authority, an increase of $228 million, or 15.6 percent over the 1986 post-sequestration level of $1.5 billion. Consistent with the administration's emphasis on basic research, NSF's support of such activities would continue to grow. The president's request also would increase budget authority and outlays for NSF's research and related activities, and for its science and engineering education activities. In 1984, the Northeast and Midwest received 45.8 percent of the R & D funds obligated by NSF. (See the table at the end of this section.)

The Department of Commerce, which has an important role in advancing technological innovation and promoting the competitiveness of U.S. industries, would have a budget authority for science and technology of $1.24 billion in fiscal 1977. This is a decrease of $78.5 million, or 6 percent, from the fiscal 1986 level, which reflects sequestration and a proposed rescission of $85 million. However, outlays would continue to rise because of prior year commitments.

## Defense

The Department of Defense exerts tremendous influence over the direction and purpose of research and development in the United States because it supports such a large percentage of the nation's total. DoD combines all of its R & D activities under the category of research, development, test and evaluation (RDT&E). Budget authority for RDT&E in fiscal 1987 would increase by $8.2 billion, or 24.3 percent, over 1986 assuming sequestration. In 1984, the Northeast and Midwest received a greater proportion of DoD R & D funds (41 percent) than they did total DoD expenditures (33 percent). Industrial firms in the region and the Federally Funded Research and Development Centers (FFRDCs) they administer receive 83.5 percent of their federal R & D funds from the Defense Department.

While the proposed increases in defense R & D probably would continue to benefit those states that have received major contracts in the past, concern is growing that greater defense R & D spending may compete with private industry for research scientists and engineers. DoD directly and indirectly employs many of the nation's top scientists and engineers, and with heavy demand in many specialties it could draw critical human resources out of the private sector at the same time that private industry is trying to boost its international competitiveness.

## Non-Defense

Non-defense research and development activities in 1987 would be funded at $16.4 billion. This would represent a $74 million or 0.5 percent increase from the current post-sequestration level. However, outlays would decline by $42 million. The table on the following page shows the level of R & D activity by department and agency.

Only three of the 11 agencies shown in the table would experience an increase in R & D activity in 1987: NASA, NSF, and VA. NSF and NASA would receive the largest increases, at 13.0 percent and 12.7 percent. The largest reductions would occur in the Departments of Transportation (23.9 percent), Commerce (21.8 percent), and Energy (10 percent).

In 1984, Northeastern and Midwestern universities and colleges, and the FFRDCs they administer, received 76.5 percent of their total federal R & D funds from non-defense departments and agencies. These institutions of higher education, which constitute one of the region's primary strengths in attracting industry and generating new companies, may lose funding if they depend upon the federal agencies slated for larger reductions.

**Non-Defense Research and Development Obligations**
(in millions of dollars)

| Department or Agency | 1985 | 1986 | 1987 |
|---|---|---|---|
| Health and Human Services | 5,444 | 5,524 | 5,471 |
| (National Institutes of Health) | (4,824) | (4,905) | (4,672) |
| Energy (DOE)[1] | 2,650 | 2,540 | 2,276 |
| National Aeronautics and Space Administration (NASA) | 3,235 | 3,594 | 4,051 |
| National Science Foundation (NSF) | 1,346 | 1,334 | 1,508 |
| Agriculture | 941 | 922 | 907 |
| Transportation | 430 | 364 | 277 |
| Interior | 389 | 381 | 345 |
| Environmental Protection Agency | 320 | 334 | 310 |
| Commerce | 399 | 380 | 297 |
| Agency for International Development | 210 | 206 | 203 |
| Veterans Administration (VA) | 227 | 186 | 194 |
| All Other[2] | 550 | 531 | 531 |
| Total | 16,141 | 16,296 | 16,370 |

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[1] Includes spending for general science and energy program.

[2] Includes the Departments of Education, Justice, Labor, Housing and Urban Development, and the Treasury, the Tennessee Valley Authority, the Smithsonian Institution, the Corps of Engineers, the Nuclear Regulatory Agency, and the Federal Emergency Management Agency.

## Facilities

Funding for research and development facilities would be cut by $78 million in fiscal 1987 from present levels, although outlays would rise slightly because of prior commitments. This funding is used for purchases of major scientific instrumentation and for construction and renovation of laboratories and research support facilities. The two largest recipients in the past have been national laboratories and university and college research centers.

Colleges and universities, which conduct about 12 percent of the nation's total R & D and about half of its basic research, continue to face substantial, growing, and unmet needs to replace obsolete research instrumentation and modernize existing research laboratories. Half of higher education's physical plant is more than 25 years old; one quarter of it was constructed prior to World War II. Estimates of the total need for plant replacement and renewal are in the range of $30 billion to $40 billion.

Many of the colleges and universities in the Northeast and Midwest are among the oldest in the nation. Reductions in federal spending for facilities would hamper the process of modernization needed to support local industry's attempts to boost technological competitiveness and develop new products and processes. Four years ago, in the first year of a special five-year, $150 million instrumentation program, DoD received more than 2,500 proposals requesting about $645 million, giving some indication of the large demand.

## Basic Research

The 1987 budget would increase obligations for basic research by $613 million, or 7.7 percent, above current levels. The increase in basic research activity reflects the priority placed by the administration on basic research as a means to achieve its defense and economic goals. Support of basic research increases the ability of the nation's academic scientists to conduct high-quality research and educate the next generation of scientists and engineers.

The largest increases in basic research funding would go to NASA (27 percent), NSF (13 percent), and the Department of Energy (13 percent). NSF would conduct almost 17 percent of total basic research in fiscal 1987, and would continue to be the largest supporter of basic research in the physical sciences and engineering. Basic research would account for over 94 percent of NSF's total support for R & D ($1.42 billion out of $1.51 billion).

## National Science Foundation (NSF)

The president's request would reauthorize NSF and increase its budget authority in fiscal 1987 by $228 million, or 15.6 percent, over the current level of $1.7 billion (assuming sequestration). Budget authority for research and related activities would increase by $185 million, or 14 percent. To maintain and slightly increase the current level of activity, science and engineering education would receive a large increase in budget authority of $36 million, or 68 percent.

Increases proposed for areas of particular interest to the Northeast and Midwest include: biotechnology ($20 million, or 23.1 percent), computational science and engineering ($27 million, or 47.4 percent), and advanced scientific computing ($8.4 million, or 18.6 percent). Budget authority for engineering research centers would increase by $12 million to $35 million, and funding for industry/university research centers would continue at the current level of $3 million. In addition, the college science instrumentation program would receive an increase in budget authority of $2 million, and new research would begin in robotics.

NSF support in fiscal 1987 for R & D facilities, equipment, and instrumentation would increase to $283.3 million, 17 percent above the $241.8 million post-sequestration level in fiscal 1986. In 1984, the Northeast and Midwest received $546 million, or 46 percent, of the $1.194 billion in research and development funds distributed by NSF.

### Commerce Department

The administration's request would reduce the budget authority of the Commerce Department agencies that carry out science and technology programs to $12.37 billion. This would be a reduction of $163 million, or 12 percent from fiscal 1986 (assuming sequestration). The administration also proposes a rescission of $85 million this year. These programs account for most of the department's R & D, which would be cut by 22 percent.

The National Bureau of Standards (NBS) performs research and provides services that directly enhance U.S. industrial competitiveness. In fiscal 1987, NBS would receive budget authority of $121.8 million, an increase of $5.2 million, or 4.4 percent, over the current level (assuming sequestration).

Also within the Department of Commerce, the National Technical Information Service (NTIS) encourages technology transfer through the acquisition and sale of research, development, and engineering reports. In 1987, NTIS would receive budget authority and outlays of $36.6 million, the same as this year.

In the Economic and Statistical Analysis division, all accounts would continue at current levels except for the Office of Productivity, Technology and Innovation (OPTI). This office -- which promotes private-sector innovation and improvements in technology utilization and productivity -- would be terminated in fiscal 1987. OPTI is the sole governmental entity specifically focused on the biggest challenges facing U.S. firms as they compete in the international marketplace.

## B. Trade

The president's budget request does not contain a special analysis on trade and trade-related spending. The departments, agencies, and institutions that have trade-related responsibilities are spread across several federal budget functions. Even the cumulative spending of these agencies does not reflect fully all of the adminstration's trade activities. However, this spending does clarify some of the president's trade priorities.

Federally funded entities with trade-related responsibilities can be divided into three groups: agencies that promote exports, those that focus on imports, and those that have programs in both areas.

Among the agencies that deal with exports, some -- for example, the Export-Import Bank (Ex-Im), the Overseas Private Investment Corporation (OPIC), and the Department of Agriculture -- promote exports directly. Others, including the World Bank Group and the regional development banks, promote exports indirectly through development assistance to other nations. The administration generally would increase funding for organizations that promote exports indirectly, while curtailing spending by programs that promote them directly. Fiscal 1987 budget authority for multilateral development assistance would be $1.6 billion, up 15 percent from fiscal 1986 levels (assuming sequestration), while the Ex-Im Bank's direct loan program would be replaced and OPIC would be put up for sale. However, the administration does propose budget authority of $300 million for a targeted export financing program.

Manufactured exports contribute greatly to employment in the Northeast and Midwest. In 1981, the region had 45.8 percent of the nation's total employment, but 50.5 percent of the employment related to manufactured exports. More than one of every eight manufacturing jobs (13.1 percent) in the region was related to manufactured exports. (See the table at the end of this section.)

The administration requests $3 billion for the Department of Agriculture's short-term export credit guarantee program, down $1.8 billion from fiscal 1986 (assuming sequestration), and elimination of intermediate-term guarantees. In addition, the administration asks budget authority of $72 million for the Foreign Agricultural Service (FAS), down 10 percent from fiscal 1986 (assuming sequestration). However, the 1985 farm bill passed by Congress and signed by the president includes two export promotion programs designed to counter foreign subsidies and unfair trade practices and make American agricultural exports more competitive. These programs are not mentioned in the budget request.

Agricultural exports also are important to the Northeast-Midwest region, and especially to the Midwest. In fiscal 1984, the region had five of the nation's top ten states for total agricultural exports: Iowa, Illinois, Minnesota, Indiana, and Ohio. The region as a whole accounted for 36 percent of the nation's total agricultural exports.

The administration would reduce funding for the United States Trade Representative (USTR) and increase funding for the International Trade Administration (ITA). The USTR and ITA have responsibilities in all trade areas. Fiscal 1987 budget authority for ITA would be $179 million, down $4.6 million from this year (assuming sequestration). The administration also is seeking a rescission of $10.2 million for fiscal 1986. Most of this increase would provide additional staff positions to meet new demands in export control activities and to respond to an increased number of antidumping and countervailing duty petitions from U.S. industries. Funding for trade development activities would decline dramatically.

Among those programs and agencies addressing import-related trade issues, fiscal 1987 budget authority for the International Trade Commission (ITC) would increase by $2 million, or 9 percent. Budget authority for the U.S. Customs Service would remain essentially constant, although 1,446 full-time positions would be eliminated. Trade Adjustment Assistance for firms and workers would be eliminated. The tremendous surge in imports that has resulted in the massive U.S. trade deficit has taken its toll on the Northeast-Midwest region's manufacturing industries and workers. Between 1979 and 1984, when the economic recovery was at its peak, the region lost 1.6 million, or 13.7 percent, of its manufacturing jobs. The Midwest alone lost 1 million jobs, or 17.3 percent of its previous total. During this five-year period, the region's share of total manufacturing employment declined from 53.6 percent to 50.4 percent.

## International Development Assistance

Proposed budget authority for multilateral development assistance -- which includes the World Bank, the International Development Association, the International Finance Corporation, and the regional development banks -- would be $1.578 billion in fiscal 1987. This would be an increase of $169.5 million, or 12 percent, over fiscal 1986 (assuming sequestration). In addition, a rescission of $40 million is sought for this year. All of the World Bank Group institutions and regional development banks would receive large increases, averaging 30 percent. Budget authority for international organizations and programs would decrease by 18 percent to $186 million, down from $226.2 million in fiscal 1986 (assuming sequestration and including a proposed rescission of $39.8 million).

The World Bank Group and the regional development banks foster growth and development in countries around the world. Such growth can stimulate demand and provide opportunities for increased U.S. exports, especially basic manufacturing goods produced by industries in the Northeast-Midwest region.

The Trade and Development Program (TDP) would be reauthorized and would receive $18 million in fiscal 1987 budget authority. TDP finances planning services for major development projects in the Third World to foster economic development and enhance the use of U.S. technology, goods, and services. TDP activities also help to assure access to natural resources utilized in U.S. manufacturing.

## International Monetary Fund (IMF)

The IMF is a multinational lending organization that helps member countries with serious debt or balance of payments problems. This assistance gives countries time to implement policy reforms without resorting to abrupt and harmful restrictions on trade and payments. The IMF has played a lead role in addressing the lesser developed country (LDC) debt crisis. The current quota for U.S. participation in IMF lending programs is $19 billion. Use of these funds by the IMF does not result in net budget outlays for the United States.

## Export Import Bank (Ex-Im)

The administration again proposes to eliminate the Ex-Im Bank direct loan program and replace it with a program of interest rate subsidies to private banks that make below-market-rate loans to foreign buyers of U.S. goods. Ex-Im's loan guarantee and insurance program would continue at a level of $12 billion, an increase of $2 billion from this year.

The president proposed a similar interest rate subsidy program (the I-Match program) in fiscal 1986. Under this program, the Ex-Im Bank would provide direct subsidies of up to $100 million to reduce the effective interest rates to borrowers for as much as $1.8 billion of loans it would guarantee.

The purpose of the program is to counter export subsidies by foreign nations. Currently, the Ex-Im Bank achieves similar goals by borrowing from the Federal Financing Bank and using these funds to finance loans made directly to the buyers of U.S. products.

The administration claims that the proposed change from direct loans to the revised I-Match program would reduce outlays without hurting the competitiveness of U.S. exports. Many exporters view the revised I-Match program more favorably than they did the original version. However, they do not see it as a substitute for direct loans. Others say the new proposal would increase the program's service costs without increasing the scope of its activities. A preliminary analysis by the House Budget Committee indicates that budget outlays would not necessarily decrease, and actually might increase if this arrangement were adopted.

### Fair Export Financing Program

The president also proposes budget authority of $300 million to create a new Fair Export Financing Program. This program -- the president's "war chest" proposal of September 25, 1985 -- would help U.S. exporters counteract unfair foreign subsidies known as "tied aid" or "mixed credits." Tied aid is a form of export financing that combines development aid and official export subsidies. Actions authorized under this program would be used to further the administration's efforts to use international negotiations to eliminate all officially subsidized export credits. The effectiveness of the program might be small, however, because outlays in fiscal 1987 would be only $16 million.

Under existing legislation, the Ex-Im Bank has the authority to make "tied aid" offers in support of U.S. exporters. The administration's proposal would transfer control of this function to the Treasury Department, in consultation with the National Advisory Committee on International Monetary and Financial Policy. Current legislation under consideration by Congress would create a similar tied aid program, but would leave it under the Ex-Im Bank's jurisdiction.

### Overseas Private Investment Corporation (OPIC)

OPIC is a government corporation that encourages the participation of the U.S. private sector in the social and economic development of less developed countries. Its principal programs are "political risk" insurance and investment financing. OPIC operates without general revenues. Over the past few years it has contributed approximately $100 million annually to the Treasury. It would contribute $113 million in fiscal 1987 if it were retained in its present form.

The administration proposes to "privatize" OPIC, and would create a task force to examine alternative ways of doing so. The administration believes that OPIC's functions would be continued by the private insurance market and the World Bank's Multilateral Investment Guarantee Agency (MIGA), a newly established institution. The United States would contribute $222 million to MIGA. The administration has requested $44.4 million in fiscal 1987 budget authority for this purpose.

## Agricultural Export Programs

Agricultural exports are the single largest category of U.S. exports. In fiscal 1981, the peak year, agricultural exports totaled $43.8 billion and offset nearly half of the non-agricultural trade deficit. However, agricultural exports have been hurt by the overvalued dollar. In fiscal 1985, the value of agricultural exports was $31.2 billion, down 18 percent from the previous year and almost 29 percent from 1981. The export market is extremely important to the nation's agricultural producers; nearly 40 percent of planted acreage is devoted to crops intended for export.

The Department of Agriculture has several international programs encouraging exports. The department's export credit programs are funded through the Commodity Credit Corporation and administered by the Office of the General Sales Manager. The administration requests $3.0 billion for short-term export credit guarantees, and elimination of intermediate-term guarantees. Export credit levels in fiscal 1986 are estimated to be $4.8 billion for short-term and $479 million for intermediate-term guarantees (assuming sequestration). The administration also proposes to increase loan origination fees from one percent to 5 percent.

The Foreign Agricultural Service (FAS) would receive fiscal 1987 budget authority of $71.9 million, down $7.6 million, or 9.6 percent, from the fiscal 1986 level of $79.5 million (assuming sequestration). The FAS is responsible primarily for the expansion of foreign export markets for U.S. agricultural products. Functions of the agency include foreign market intelligence and access, development of foreign markets for U.S. agricultural products, and representation of U.S. agricultural interests abroad. Foreign market development programs would bear the brunt of the fiscal 1987 reductions.

Two new agricultural export promotion programs were included in the Food Security Act of 1985 passed by Congress and signed by the president. Both programs developed from the president's Bonus Incentive Commodity Export Program (BICEP) proposal. The first initiative is a bonus export promotion program aimed at general market expansion for U.S. agricultural exports. It would lower the export price of U.S. commodities by making available to U.S. exporters, processors, and foreign purchasers, at no extra cost, $2 billion worth of surplus government commodities over a three-year period. The program is designed to counter unfair foreign trade practices and generally to make American products more competitive. No outlays are required by this program because the surplus commodities were purchased in previous years.

The second program would use targeted export credits to counter the subsidies, import quotas, or unfair trade practices of specific countries. At least $325 million in cash or commodities would be available to U.S. exporters each year for the next five years. Priority would be given to commodities that already have received a favorable decision under Section 301 of the Trade Act of 1974. The budget request does not provide separate figures for this program.

## Office of the United States Trade Representative (USTR)

The administration would reauthorize the office of the USTR, with budget authority in fiscal 1987 of $12.2 million. This is a decrease of $376,000, or

3 percent, from fiscal 1986 levels (assuming sequestration), and a 10 percent decrease from fiscal 1985. No positions would be eliminated.

The USTR is a cabinet-level official with the rank of ambassador. The USTR serves as the chief U.S. representative to a number of international organizations, including the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD) (when its negotiations deal primarily with trade and commodity issues), and the United Nations Conference on Trade and Development. Under the president's proposal, U.S. obligations to GATT in fiscal 1987 would be $3.7 million, down 9.5 percent from this year, and obligations to OECD would be $19.9 million, down 7.0 percent. The USTR also is responsible for developing and coordinating U.S. foreign trade policy and negotiating trade agreements.

The USTR is expected to play a central role in continuing efforts to establish an effective response to the current crisis in U.S. trade relations. Such efforts in the past year have included Market-Oriented, Sector-Specific (MOSS) negotiations wih the Japanese over access to their markets, implementation of the voluntary restraint agreements (VRAs) for steel imports, and initiation of Section 301 unfair trade petitions against several countries. Issues to be addressed in the coming year include a new round of GATT negotiations aimed at reducing non-tariff barriers and adding services and agricultural trade to GATT coverage; discussions of reform for the international currency exchange system (to be led by the Secretary of the Treasury); the addition of new sectors in the MOSS talks with Japan; and possible renegotiation of the Multi-Fiber Agreement (MFA) governing trade in textiles.

## International Trade Administration (ITA)

ITA is a separate agency under the auspices of the Department of Commerce, with primary responsibility for the government's nonagricultural trade functions. It is charged with developing the export potential of U.S. firms and promoting an improved trade posture for U.S. industry. ITA is expected to help expand exports, improve enforcement of U.S. trade laws, and upgrade government activities covered by multilateral trade negotiations.

The administration requests fiscal 1987 budget authority of $179.2 million for ITA. This would be $5.6 million over the fiscal 1986 level of $173.6 million, assuming sequestration and a proposed rescission of $10.2 million. However, it is $12.8 million, or 6.7 percent, below the amount originally appropriated for 1986. ITA activities are divided into four principal areas: trade development, international economic policy, trade administration, and U.S. and foreign commercial services.

The trade development program assesses the competitiveness of various U.S. industries, performs trade and investment analyses in support of industry programs and trade policy, and conducts export promotion programs directed toward industry sectors. In fiscal 1987, program spending for these activities would decrease by $30.5 million, or 47 percent, from current levels (pre-sequestration and before proposed rescissions), and Trade Adjustment Assistance (TAA) to firms would be eliminated (see TAA).

The trade administration program is responsible for a variety of import and export activities, including enforcement of export controls; investigation of antidumping and countervailing duty cases; oversight of foreign trade zones;

and monitoring compliance with voluntary restraint agreements (VRAs). In fiscal 1987, program levels would increase substantially to $5.3 million. Part of this request would allow additional staff to meet new Export Administration Act requirements. The remainder would be used to add import administration staff to handle the increased number of antidumping and countervailing duty petitions filed by U.S. industries since 1980, and to monitor the steel VRAs with other countries.

Funding for international economic policy would increase slightly in fiscal 1987 to $13.8 million. In addition to providing trade, investment, and economic policy analysis, this program provides marketing services directly and through the Foreign Commercial Service (FCS). The U.S. Commercial Service and FCS maintain offices in 47 states and 63 countries. Their goal is to help U.S. businesses expand exports through a combination of counseling, trade shows, export market information, and other initiatives. Program funding in fiscal 1987 would be $75.9 million, down slightly from this year's presequestration level.

### International Trade Commission (ITC)

The ITC is an independent federal agency with broad powers to study and investigate all factors relating to U.S. foreign trade, its effect on domestic production and employment, the competitiveness of U.S. products, and foreign and domestic customs laws. Although basically a fact-finding agency, the ITC plays a key role in trade policy because of its jurisdiction over cases brought under Sections 201 and 301 of the Trade Act of 1974. These cases evaluate whether unfair methods -- such as dumping, illegal subsidies, and unfair competitive practices -- are being used in the import or sale of foreign-made articles. The ITC also makes determinations of whether injury to industries is due to imports and recommendations to the president on whether relief is warranted. Recent cases of special interest to the Northeast-Midwest region have involved steel and footwear imports.

The administration's budget would reauthorize the ITC and increase its budget authority by $2.3 million, or 8.5 percent, from the 1986 level (assuming sequestration). Total budget authority in fiscal 1987 would be $29.7 million.

### United States Customs Service

The Customs Service would receive $871.6 million in budget authority in fiscal 1987, $1.4 million less than this year (assuming sequestration). The president also proposes a rescission in fiscal 1986 budget authority of $23.4 million. The Customs Service is responsible for the inspection of all goods entering the United States, the collection of tariffs, and investigation of various illegal activities related to imports and exports.

The Customs Service's ability to perform these functions adequately has been strained severely by three recent developments: 1) the huge increase in imports over the last five years; 2) a rising number of special quotas and restrictions governing imports, e.g. textile quotas and voluntary restraint agreements on steel; and 3) a rapid increase in the amount of counterfeit, smuggled, and illegally imported goods entering the United States. Inability to cope with these problems has cost the U.S. millions of dollars in lost government revenues and company sales, and has cost American workers their jobs. Despite these problems, the administration proposes eliminating 1,446 full-time permanent positions, reducing staff levels by over 10 percent. Similar staff cuts in the fiscal 1986 request were rejected by Congress. In fact, Congress funded 503 additional positions for this year. A Congressional Budget Office analysis showed that 600 additional Customs positions would result in a net revenue increase of $1.2 billion over three years.

### Trade Adjustment Assistance (TAA)

The administration's budget would terminate all Trade Adjustment Assistance programs in fiscal 1987. These programs provide assistance to firms and workers affected by imports. The TAA program for firms offers grants, loans, loan guarantees, and technical assistance to companies hurt by imports to help them become more competitive. The president's request would terminate all activities, including loans and loan guarantees, in fiscal 1987. In fiscal 1986, it would rescind $10.2 million in budget authority for grants and loans and $14.0 million in supplemental funds authorized for direct and guaranteed loans under existing legislation. The TAA program for firms is administered by the International Trade Administration (ITA) in the Department of Commerce.

The TAA program for workers is administered by the Employment and Training Administration in the Department of Labor. This program provides extended unemployment benefit payments, pays for retraining programs, and covers job search and relocation expenses for eligible workers. The president's request would eliminate funding for these services in fiscal 1987 and allocate only $23 million in fiscal 1986 funds for training, job search, and relocation assistance, down from $43.4 million in the previous year. The administration has proposed additional funding for the discretionary portion of the Job Training Partnership Act's Title III dislocated worker program, which serves some of the same people (see **Section Two: Human Resources**). Supplemental funding in fiscal 1986 for Title III would be $74 million, and fiscal 1987 budget authority would be $100 million.

Congressional action on the TAA programs is likely early in 1986. Authorization for assistance to firms and unemployment benefit payments to workers expired on December 19, 1985, when Congress adjourned without passing the reconciliation package. However, funding for the training, job search, and relocation assistance provisions for workers was continued because it had been authorized previously. Despite this indication of congressional intent (the inclusion of TAA benefit programs in the reconciliation package) the administration terminated all payments to workers effective January 1, 1986. Separate legislation already has been introduced to reauthorize all TAA programs and make them retroactive to the beginning of the year.

## Federal Research and Development Obligations: Fiscal 1984
(in millions of dollars)

| Region and State | Total | By Selected Agencies | | | By Selected Performers | | |
|---|---|---|---|---|---|---|---|
| | | Defense | Non-Defense | | | | |
| | | | Total | NSF | Industrial[2] Firms | Universities[3] and Colleges | Federal Agencies |
| **New England** | | | | | | | |
| Connecticut | 676.0 | 424.9 | 251.1 | 13.2 | 406.5 | 132.3 | 129.8 |
| Maine | 38.1 | 8.8 | 29.3 | 3.8 | 17.9 | 6.3 | 3.4 |
| Massachusetts | 2,881.7 | 2,174.6 | 707.1 | 93.0 | 1,342.0 | 528.2 | 138.5 |
| New Hampshire | 116.3 | 88.9 | 27.3 | 3.1 | 68.9 | 23.4 | 23.6 |
| Rhode Island | 306.0 | 259.4 | 46.6 | 15.7 | 33.0 | 38.7 | 223.4 |
| Vermont | 33.7 | 13.2 | 20.5 | 0.9 | 12.7 | 18.3 | 1.9 |
| Total | 4,051.8 | 2,969.8 | 1,081.9 | 129.6 | 1,881.0 | 747.2 | 520.6 |
| **Mid-Atlantic** | | | | | | | |
| Delaware | 63.7 | 31.9 | 31.8 | 4.0 | 49.4 | 10.2 | 2.1 |
| Maryland | 3,918.0 | 2,128.1 | 1,789.9 | 24.4 | 1,011.1 | 328.1 | 2,545.0 |
| New Jersey | 1,549.9 | 1,243.9 | 306.0 | 37.9 | 547.2 | 191.2 | 801.5 |
| New York | 2,500.3 | 1,462.4 | 1,037.9 | 120.2 | 1,522.9 | 770.4 | 59.9 |
| Pennsylvania | 1,142.3 | 566.1 | 576.2 | 44.8 | 521.8 | 307.2 | 242.5 |
| Total | 9,174.2 | 5,432.4 | 3,741.8 | 231.3 | 3,652.4 | 1,607.1 | 3,651.0 |
| **Midwest** | | | | | | | |
| Illinois | 675.2 | 132.9 | 542.3 | 56.3 | 68.7 | 502.3 | 68.7 |
| Indiana | 235.9 | 98.6 | 137.2 | 29.5 | 49.8 | 128.6 | 55.6 |
| Iowa | 134.3 | 41.2 | 93.1 | 5.7 | 35.3 | 79.6 | 18.0 |
| Michigan | 477.4 | 287.7 | 189.7 | 35.0 | 219.3 | 156.4 | 79.0 |
| Minnesota | 636.8 | 464.1 | 172.6 | 15.8 | 490.2 | 86.7 | 26.6 |
| Ohio | 1,367.1 | 971.8 | 395.3 | 19.9 | 742.0 | 140.9 | 441.0 |
| Wisconsin | 164.8 | 11.2 | 153.7 | 23.3 | 16.9 | 119.5 | 24.0 |
| Total | 3,691.5 | 2,007.5 | 1,683.9 | 185.5 | 1,622.2 | 1,214.0 | 712.9 |
| Missouri | 659.2 | 534.9 | 124.2 | 8.9 | 509.6 | 95.6 | 42.0 |
| Total with Missouri | 4,350.7 | 2,542.4 | 1,808.1 | 194.4 | 2,131.8 | 1,309.6 | 754.9 |
| **Northeast** | 13,225.9 | 8,402.2 | 4,823.7 | 360.9 | 5,533.4 | 2,354.3 | 4,171.6 |
| **Midwest*** | 3,691.5 | 2,007.5 | 1,683.9 | 185.5 | 1,622.2 | 1,214.0 | 712.9 |
| **Northeast and Midwest*** | 16,917.4 | 10,409.7 | 6,507.6 | 546.4 | 7,155.6 | 3,568.3 | 4,884.5 |
| **South** | 9,243.8 | 5,568.1 | 3,675.7 | 292.7 | 4,267.4 | 1,061.4 | 3,620.6 |
| **West** | 14,907.8 | 9,307.9 | 5,600.0 | 355.1 | 8,757.7 | 3,057.1 | 2,638.9 |
| **South and West** | 24,151.6 | 14,876.0 | 9,275.7 | 647.8 | 13,025.1 | 4,118.5 | 6,259.5 |
| **U.S. Total[1]** | 41,069.0 | 25,285.7 | 15,783.3 | 1,194.2 | 20,180.7 | 7,686.8 | 11,144.0 |

*Regional totals do not include Missouri figures; they are included under West.

[1] U.S. figures do not include funds for outlying areas or offices abroad.

[2] Industrial firms figures include funds for Federally Funded Research and Development Centers (FFRDCs) administered by industrial firms.

[3] Figures for universities and colleges include funds for FFRDCs administered by universities and colleges.

SOURCE: Staff calculations from National Science Foundation, Federal Funds for Research and Development, Volume XXXIV (Washington, D.C., 1985).

**Employment Related to Manufactured Exports: 1981**
(in thousands)

| Region and State | Total Non-Agricultural Employment | Total Manufacturing Employment | Employment Related to Manufactured Exports | | | |
|---|---|---|---|---|---|---|
| | | | In Manufacturing | In Non-Manufacturing | Total | Percent of Non-Agricultural |
| **New England** | | | | | | |
| Connecticut | 1,438.7 | 454.6 | 67.5 | 37.5 | 105.0 | 7.30 |
| Maine | 419.2 | 115.3 | 11.4 | 9.5 | 20.9 | 4.99 |
| Massachusetts | 2,668.2 | 691.6 | 98.4 | 56.7 | 155.1 | 5.81 |
| New Hampshire | 394.6 | 111.3 | 15.8 | 8.5 | 24.3 | 6.16 |
| Rhode Island | 401.4 | 127.4 | 15.4 | 9.5 | 24.9 | 6.20 |
| Vermont | 204.3 | 49.6 | 5.8 | 4.3 | 10.1 | 4.94 |
| Total or Average | 5,526.4 | 1,549.8 | 214.3 | 126.0 | 340.3 | 6.16 |
| **Mid-Atlantic** | | | | | | |
| Delaware | 259.2 | 67.1 | 9.1 | 6.0 | 15.1 | 5.83 |
| Maryland | 1,715.8 | 243.3 | 26.4 | 27.4 | 53.8 | 3.14 |
| New Jersey | 3,098.1 | 792.7 | 94.5 | 80.5 | 175.0 | 5.65 |
| New York | 7,287.3 | 1,502.0 | 172.0 | 200.0 | 372.0 | 5.10 |
| Pennsylvania | 4,728.9 | 1,290.6 | 171.4 | 112.7 | 284.1 | 6.01 |
| Total or Average | 17,089.3 | 3,895.7 | 473.4 | 426.6 | 900.0 | 5.27 |
| **Midwest** | | | | | | |
| Illinois | 4,732.3 | 1,210.3 | 157.0 | 118.4 | 275.4 | 5.82 |
| Indiana | 2,114.4 | 643.3 | 85.9 | 54.4 | 140.3 | 6.64 |
| Iowa | 1,088.6 | 235.8 | 28.5 | 31.5 | 60.0 | 5.51 |
| Michigan | 3,364.4 | 976.7 | 142.8 | 76.1 | 218.9 | 6.51 |
| Minnesota | 1,761.3 | 372.5 | 46.4 | 44.5 | 90.9 | 5.16 |
| Ohio | 4,317.6 | 1,219.4 | 179.6 | 104.4 | 284.0 | 6.58 |
| Wisconsin | 1,923.2 | 527.8 | 67.8 | 46.2 | 114.0 | 5.93 |
| Total or Average | 19,301.8 | 5,185.8 | 708.0 | 475.5 | 1,183.5 | 6.13 |
| Missouri | 1,956.3 | 430.0 | 48.0 | 46.7 | 94.7 | 4.84 |
| Total with Missouri | 21,258.1 | 5,615.8 | 756.0 | 522.2 | 1,278.2 | 6.01 |
| **Northeast** | 22,615.7 | 5,445.5 | 687.7 | 552.6 | 1,240.3 | 5.48 |
| **Midwest*** | 19,301.8 | 5,185.8 | 708.0 | 475.5 | 1,183.5 | 6.13 |
| **Northeast and Midwest*** | 41,917.5 | 10,631.3 | 1,395.7 | 1,028.1 | 2,423.8 | 5.78 |
| **South** | 27,795.0 | 5,721.0 | 637.4 | 668.1 | 1,305.5 | 4.70 |
| **West** | 21,845.9 | 3,912.0 | 573.2 | 493.3 | 1,066.5 | 4.88 |
| **South and West** | 49,640.9 | 9,633.0 | 1,210.6 | 1,161.4 | 2,372.0 | 4.78 |
| **U.S. Total or Average** | 91,558.4 | 20,264.3 | 2,606.3 | 2,189.5 | 4,795.8 | 5.24 |

*Regional totals do not include Missouri figures; they are included under West.

SOURCES: Staff calculations from U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings (Washington, D.C., May 1984); U.S. Department of Commerce, International Trade Administration, 1981 U.S. Manufactured Exports and Export-Related Employment (Washington, D.C., July 1984).

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**Reaching for Recovery: New Economic Initiative in Michigan** (1985) $10.00
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2. **Literacy at Work: Developing Adult Basic Skills for Employment** (1985) $5.00 by Paula Duggan

The problem of adult illiteracy, especially among dislocated workers, is examined in relation to the needs of the workplace. This analysis suggests policies that educators, businesses, and public policy makers can adopt to raise worker competency levels in the basics of reading, writing, and mathematics.

3. **Education Inc.: How Schools Strengthen the Local Economy** (1985) $5.00 by Candice Brisson

This handbook for school administrators examines traditional and nontraditional ways of identifying school resources to foster local economic development. Examples of programs around the country are described, along with questions to aid school administrators in better appreciating the impact of individual district expenditures on local economies.

**The New American Unemployment: Appropriate Government Responses to Structural Dislocation** (1985) $7.50
by Paula Duggan and Virginia Mayer

This report examines policy changes that could aid in the reabsorption of dislocated workers into the labor force. It proposes that the federal government become an "enabler" of state and community-based programs to provide workers with training opportunities, remedial education, job-search assistance, and labor market information. It also reviews successful programs sponsored by labor unions, companies, and the private sector to mitigate the effects of plant closures and slowdowns on workers.

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This 124-page report analyzes in detail the technical, institutional, and financial aspects of increased importation of Canadian electricity to the Northeast and Midwest.

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This study analyzes the effects of massive cuts in federally funded R&D since 1981, the consequences of halting projects in advanced stages of development, and the effects of the failure of the private sector to take up the slack.

**Superfund: A Survey of State Needs** (1984) $7.50
by Eric Schaeffer, David Nemtzow, and Wesley Warren

State hazardous waste management officials in the 18-state region were asked to describe their experiences with the Superfund program, their own state programs, and suggest how these programs could work more effectively together. An analysis of a new way to fund toxic waste cleanup, the waste-end tax proposal, is included.

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